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Undesired Consequences of Labour Market Reforms: From Temporary to Precarious Jobs - The Case of Spain

Summary: One of the peculiarities of the Spanish labour market has been the existence of a high share of temporary employment, a result of the 1984 labour reform which made the use of temporary contracts more flexible. Since 1994, various reforms have sought to increase the use of open-ended contracts and discourage the use of fixed-term contracts. Although these reforms, in particular the 2012 and 2021 reforms, have led to a reduction in the share of temporary workers they have also created other unintended problems, such as a reduction in the duration of fixed-term contracts, the proliferation of part-time contracts and atypical open-ended contracts, and a high share of temporary employment in public sector.

Keywords: Labour market reforms, Temporary employment, Precarious jobs, Labor segmentation, Employment, Unemployment, Spain.

JEL: E24, J21, J41, J48, J68.

Many countries have implemented labour market reforms in recent decades with the aim of making labour markets more flexible and, as a result, accelerating job creation and reducing unemployment. Most of these reforms focused on employment protection legislation, reducing dismissal costs for permanent workers and facilitating the use of temporary contracts (fixed-term and agency workers) (Agnieszka Piasna and Martin Myant 2017). These reforms led to an increase in the number of temporary contracts and the share of temporary workers, resulting in a labour segmentation between temporary and permanent workers, which was considered excessive due to its negative effects at both micro and macroeconomic levels.

For these reasons, from the mid-1990s, and especially from the early 2000s, several European countries, including Spain, have taken measures to reduce the excessive share of temporary workers that characterised the labour market (Jochen Clasen, Daniel Clegg, and Jon Kvist 2012; Carole Lang, Isabelle Schömann, and Stefan Clauwert 2013; Jill Rubery and Piasna 2016; Jesús Ferreiro and Carmen Gómez 2017). Among other measures, the promotion of part-time contracts as an alternative to temporary contracts stands out. These measures accelerated at the end of the decade, after the outbreak of the global financial crisis in 2008 and the subsequent Great Recession, when numerous studies raised doubts about the effectiveness of labour market flexibility measures in accelerating job creation and reducing unemployment.

Although these measures have contributed to reducing the share of temporary workers, in countries such as France, Italy or Spain they have also contributed in an

undesirable way to increasing job insecurity and precariousness by reducing the duration of temporary contracts and increasing the weight of other atypical contracts such as part-time contracts (both permanent and temporary) and also by reducing the probability of temporary workers obtaining a permanent job (Georg Picot and Arianna Tasinari 2017; Clémence Berson 2018; Florentino Felgueroso et al. 2018).

This paper focuses in the case of Spain, analysing how the successive labour reforms implemented since 1994, aimed at reducing the excessive share of temporary workers, have had, at least until the last reform approved in 2021, a limited effect in promoting permanent employment and reducing temporary employment, and have contributed to increasing labour precariousness by increasing the number of very short-term temporary contracts and increasing the number of part-time contracts. In this sense, the case of the latest labour reform, approved at the end of 2021, is illustrative. Although it has had a positive effect by drastically reducing the share of temporary contracts, it has not solved the problem of the short duration of temporary contracts and has promoted the use of permanent part-time contracts and has led to an increase in an atypical type of open-ended contract that can be described as precarious.

The paper is structured as follows. In Section 1 we present the main elements that characterise the labour reforms adopted in Spain since 1984, showing their impact on employment and hiring, highlighting the creation of a labour market segmented initially between permanent and temporary workers, and subsequently between full-time permanent workers and worker with precarious contracts and jobs, such as short-term fixed-term contracts, and part-time contracts. Section 2 shows the limitations of the latest labour reform, approved in 2021, which, although it has served to drastically reduce temporary employment in the private sector, has not tackled the problems of job insecurity that exist in the Spanish labour market. The final section presents the main conclusions of the paper.

1. Labor Market Reforms in Spain

1.1 The 1984 Labour Reform

After the advent of democracy in Spain in 1977, the Workers' Statute, the legal text that regulates labour relations in Spain, was approved in 1980. This text established the principle of causality as the fundamental criterion for regulating employment contracts. According to this principle, the standard employment contract was the permanent or open-ended contract (essentially full-time). Temporary or fixed-term contracts could only be used for jobs of a temporary or seasonal nature, such as certain jobs in the primary sector or jobs in other sectors, such as tourism, which concentrated most of their activity in certain months of the year.

It should also be borne in mind that the legal framework, inherited to a certain extent from the labour regulations of the Franco dictatorship, favoured the permanence of workers in their jobs, significantly limiting the ability of companies to adjust their workforce by dismissing workers. Not only were the grounds for fair or justified dismissal very restrictive (with a compensation of 20 days per year worked with a maximum of 12 monthly payments), always due to force majeure unless it was for disciplinary reasons, but also, in the case of unfair dismissal without justification, the

compensation for dismissal was very high, 45 days per year worked with a maximum of 42 monthly payments. Moreover, in the case of dismissals declared unfair by the courts, the worker had the option of either receiving compensation or being reinstated in the company (in the latter case without compensation, but with the right to receive interim wages, that is, the wages and contributions that would have accrued to him/her between the date of dismissal and the date of reinstatement in the company, once the dismissal had been declared unfair by the courts).

The arrival of democracy in Spain took place in the midst of the economic crises that affected the advanced economies in general and the European economies in particular since the early 1970s. Between 1973 and 1979, employment in Spain fell by 4% and the unemployment rate rose from 2.6% to 8.8%, figures not very different from those recorded in other European countries. From 1980, however, these figures deteriorated drastically as a result of industrial restructuring policies and austerity measures aimed at reducing the inflation rate and fiscal imbalances. As a result, employment fell by 9% between 1979 and 1984 and the unemployment rate rose to 16.7%¹.

In this context, it was widely believed that the poor unemployment and employment performance was due to excessive labour market rigidities, characterised by difficulties for firms to adjust their workforces in times of falling demand, and high dismissal costs, which discouraged firms from hiring workers in times of expanding demand for fear of not being able to dismiss in case of decline in economic activity.

In 1984, the first labour reform was approved in Spain by the Socialist government, who had won the October 1982 elections with an absolute majority. This reform had the support of the socialist trade union UGT and the employers' association. In order to reduce the high unemployment rate, the reform tried to increase the flexibility of the labour market by breaking the principle of causality that governed the rules of hiring. The reform allowed the use of temporary contracts (without compensation at the end of the contract) for permanent structural jobs in the following cases: performance of a specific work or service, market circumstances and accumulation of tasks or surplus orders (maximum duration of 6 months in a 12-month period), replacement of a worker and starting a new activity (maximum duration of 3 years, which could be extended by agreement between the parties)². The reform allowed a worker to link or extend temporary contracts up to a maximum of 3 years. In addition, the reform encouraged the use of part-time contracts, which had previously been allowed only for young people and unemployed workers.

The facilitation of temporary employment was a tool to increase both the external and internal flexibility of the workforces. Thus, temporary contracts facilitated the adjustment of workforces in the face of a fall in demand, firstly by reducing the cost of dismissals, since the termination of temporary contracts at the end of their term did not entail severance pay³, and secondly by removing the uncertainty about the causes

¹ Data obtained at the AMECO Database.

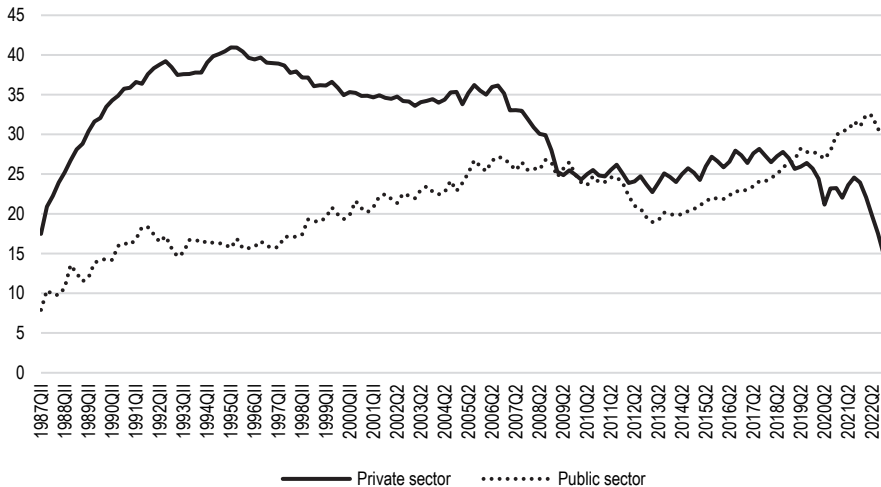
² The reform included the possibility for the government to authorise the use of temporary contracts as an employment promotion measure, thus opening up the possibility of using temporary contracts for any job.

³ According to the reform, the termination of these contracts gave the right to a compensation to be established by regulation. However, the reform did not determine what this compensation was, and, as a result, temporary workers did not receive any compensation at the end of their contracts.

of objective-fair dismissals (with lower severance pay) that affected open-ended contracts. On the other hand, internal, functional and geographical flexibility was favoured by the use of temporary workers as a way of increasing such flexibility without affecting permanent workers. In addition, the lower wages of temporary workers compared to those of permanent workers reduced labour costs and thus served to increase competitiveness through prices and improve profit margins.

Therefore, although the 1984 labour reform increased the flexibility of the Spanish labour market, the fact is that it was flexible at the margin, as it almost exclusively affected temporary workers, thus creating a segmented labour market between temporary (outsiders) and permanent (insiders) workers.

While it is true that the 1984 reform favoured job creation by increasing the employment-GDP elasticity, this increase in employment was accompanied by a growing segmentation of the labour market. Although there are no official data, it is estimated that before the 1984 reform the share of temporary employment was around 15%. These temporary contracts were used in sectors where activity is highly seasonal (tourism, agriculture, construction, etc). Between 1987 and 1994, temporary employment in the private sector increased by 1,239,500 workers, while permanent employment decreased by 913,300 workers. As a result, the share of temporary employees in the private sector rose from 17.5 % in 1985Q2 to 40.1 % in 1994Q2 (see Figure 1).



Source: Instituto Nacional de Estadística (2023)⁴.

Figure 1 Temporary Employment (% of Employees)

The 1984 reform and the resulting expansion of temporary employment led to higher employment and unemployment volatility (Ferreiro and Felipe Serrano 2001; Anita Wöfl and Juan S. Mora-Sanguinetti 2011; José Villaverde and Adolfo Maza

⁴ Instituto Nacional de Estadística. 2023. Economically Active Population Survey. <https://www.ine.es/dynt3/inebase/en/index.htm?padre=1677&capsel=988> (accessed January 04, 2023).

2021). The higher employment/GDP and unemployment/GDP elasticities were positive during the expansion that began in late 1980s, but the crisis of early 1990s clearly showed the negative side of this higher volatility during a recession. Thus, although the real GDP growth rate was 0.9% in 1992 and -1% in 1993, employment fell by 6% in these two years, destroying 773,000 jobs, and the unemployment rate rose from 15.5% in 1991 to 24.1% in 1994.

Another unintended effect of the labour reform was that the increase in temporary contracts increased the bargaining power of permanent workers, causing the real wage of permanent workers to rise and the real wage of temporary workers to fall. Thus, the average wage of a temporary worker as a percentage of the average wage of a permanent worker fell from 58% to 45% between 1988 and 1995. In fact, during the crisis, despite the destruction of total employment and permanent employment, the real wage of permanent workers continued to rise.

The lower real wage of temporary workers provided an incentive to use these contracts as a key mechanism to gain competitiveness, while discouraging firms from using other types of measures, such as measures to promote internal mobility, for the same purpose.

1.2 The 1994 Labour Reform

In 1994, it was accepted that the share of temporary workers was too high, leading to excessive labour segmentation between permanent and temporary workers. This segmentation not only meant that workforce adjustments were concentrated on temporary workers (who were not entitled to severance pay at the end of their contracts), but it led to a deep wage gap between permanent workers (whose real wages were rising) and temporary workers (whose nominal and real wages were falling). This fostered a perverse process in which for many firms the competitiveness was based on the low wage costs of temporary workers (Ferreiro and Serrano 2001).

The recognition of the existence of excessive temporariness led the Socialist government (that it no longer had an absolute majority after the June 1993 elections) to adopt a labour reform, without the support of social agents, to promote internal flexibility in companies, reducing the costs of dismissing permanent workers and discouraging temporary hiring by introducing compensation for the termination of some temporary contracts, and promoting part-time contracts as an alternative to temporary contracts. The reform also affected the regulatory framework of collective bargaining, promoting internal (functional) flexibility and linking wage and productivity increases (eliminating imitation effects in wage increases agreed in collective agreements).

In this respect, the 1994 labour reform included a very wide range of measures addressing different elements of the industrial relations framework. Among others, it included measures to promote geographical and functional mobility of workers (e.g. allowing significant changes in working conditions in terms of the working day, pay, functions, working hours, etc.); it gave greater weight in collective bargaining to the variable component of wages linked to company profits or individual worker characteristics; it transferred to collective bargaining the regulation of issues such as working time, functional and geographical mobility and wage setting; and it gave greater importance to company agreements as opposed to sectoral agreements.

With regard to contracts, the reform encouraged the use of certain fixed-term contracts, by making it possible to extend employment promotion fixed-term contracts for four and a half years, by authorising temporary employment agencies (agency workers), and by encouraging the use of traineeships and training contracts for young workers. However, it also included measures to encourage the use of part-time contracts (as an alternative to fixed-term contracts) and, in order to discourage the excessive use of fixed-term contracts, set a compensation at the end of the contract equal to 12 days' pay per year of service for employment promotion fixed-term contracts.

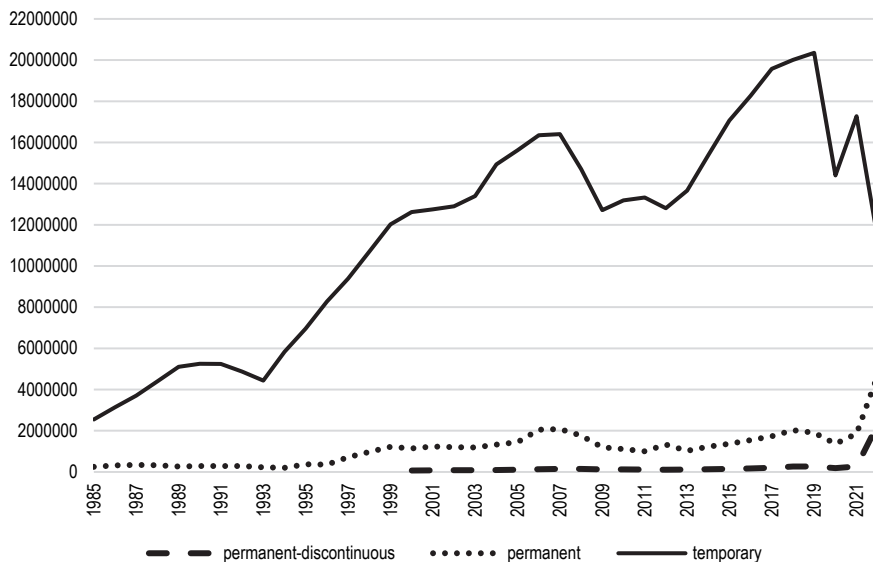
Furthermore, to reduce the costs of dismissals (individual and collective), the reform included a new definition of the Economic, Technical, Organisational or Production (ETOP) reasons that allow a dismissal to be defined as objective or fair (whose compensation was much lower than that of an unfair dismissal), namely, when the adoption of the proposed measures would contribute, in the case of economic reasons, to overcoming a negative economic situation of the company or, in the case of technical, organisational or production reasons, to ensuring the future viability of the company and employment in it through a more appropriate organisation of resources.

The 1994 labour reform was not supported by either trade unions or employers' organisations, which reduced its effectiveness, particularly with regard to the objective of changing the scope of collective bargaining, as both trade unions and employers refused to make progress in developing the content of collective bargaining and to promote decentralised collective bargaining (company agreements).

Although the 1994 reform achieved the objective of increasing permanent employment, with permanent employment in the private sector increasing by 460,000 persons between 1994Q1 and 1997Q1, temporary employment also increased by 428,000 persons, raising the share of temporary workers in the private sector from 32.6% to 33.5%. In this sense, the 1994 labour reform failed in its objective of reducing the share of temporary employment, despite, by clarifying the causes that allowed a dismissal to be defined as fair, it intended to promote permanent employment and avoid the use of fixed-term contracts as an easy and cheap tool for adjusting the workforce. The problem was that the reasons justifying a fair dismissal were still very ambiguous, involving excessive judicial interventionism, basically in favour of the workers, as judges tended to declare dismissals unfair (which meant a higher dismissal compensation and payment of interim wages).

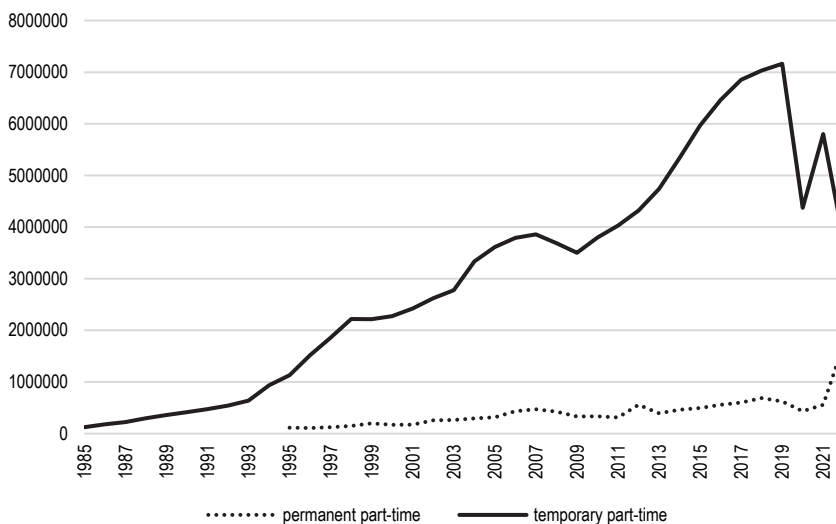
However, the most serious problem is undoubtedly that after the 1994 reform the number of temporary contracts signed in Spain exploded (Figure 2), which means that the average duration of fixed-term contracts fell dramatically. If we add to this the fact that the signing of part-time contracts, both fixed-term and open-ended, was also accelerating, a new problem was added to the Spanish labour market: a growing precariousness of the labour market as a result of the proliferation of short-term temporary contracts and part-time contracts.

Thus, although the number of new open-ended contracts rose from 222,240 in 1993 to 707,481 in 1997, the fixed-term contracts increased from 4,432,547 to 9,386,084. It should be noted that between 1993Q1 and 1997Q4 the number of temporary workers increased only from 2.9 to 3.4 million persons. Similarly, the number of part-time contracts increased from 637,462 in 1993 to 1,983,029 in 1997 (Figure 3).



Source: Ministerio de Trabajo y Asuntos Sociales (2023)⁵.

Figure 2 Employment Contracts



Source: Ministerio de Trabajo y Asuntos Sociales (2023).

Figure 3 Part-Time Contracts

⁵ Ministerio de Trabajo y Asuntos Sociales. 2023. Movimiento Laboral Registrado. https://www.mites.gob.es/es/estadisticas/mercado_trabajo/mlr/welcome.htm (accessed January 05, 2023).

Barely three years after its adoption, the idea began to spread that the 1994 reform had exhausted its potential and that the share of temporary employment was still too high. In this sense, it was accepted that the excessive flexibilisation of the Spanish labour market had several negative effects, both on the supply side and on the aggregate demand side, generated by the excessive share of temporary workers. In particular, it was argued that excessive temporariness had a negative impact on the productivity (and competitiveness) of the Spanish economy by stimulating a production model based on the intensive use of low-skilled labour and discouraging the process of accumulation of productive capital and the development of innovation and development activities, which require the intensive use of skilled and stable labour. Moreover, by creating a large wage gap between permanent and temporary workers, it provided a perverse incentive towards a model of competitiveness based on low wages, thus favouring temporary hiring (Ferreiro and Serrano 2001).

On the other hand, although the labour reform increased the level of employment in a context of economic growth, the improvement in economic activity was not accompanied by the expected growth in private consumption, thus slowing down the economic recovery. The reason for the slowdown in private consumption would be excessive temporariness, as this would lead to an increase in precautionary savings, especially among temporary workers, linked to the short duration of fixed-term contracts.

Finally, although the 1994 reform helped to reduce the unemployment rate from 24.1% in 1994 to 20.6% in 1997, the unemployment rate was still very high, especially for certain groups such as young people under 25, for whom the unemployment rate reached 42% in 1997.

1.3 The 1997 Labour Reform

The growing consensus on the nature of the problems affecting the Spanish labour market led to the adoption in December 1997 of a new labour reform, now with the support of social agents. The reform was approved by the liberal-conservative Partido Popular's government, which won the March 1996 elections but did not have an absolute majority of seats in the Congress of Deputies, and had the support of trade unions and employers' associations. The reform had a twofold objective: to reduce the share of temporary employment and the youth unemployment rate. To tackle the latter, measures were taken to encourage the use of fixed-term training and internship contracts for young people. In this case, it was recognised that the use of this type of contracts favoured the integration of young people into the labour market and made it possible to reduce the very high unemployment rate affecting them.

In order to reduce the share of temporary employment and the use of fixed-term contracts, the 1997 labour reform attempted to return to the principle of causality by restricting the use of fixed-term contracts to the circumstances that justify them, i.e. when a temporary or seasonal task has to be carried out: the performance of a specific work or service but of uncertain duration, market circumstances, accumulation of tasks, etc. On the other hand, the 1997 reform encouraged the use of part-time contracts as an alternative to fixed-term contracts, especially those of very short duration.

However, the main measure to encourage the use of open-ended contracts was the temporary creation (during a period of 4 years after the approval of the reform) of a new permanent contract (called “contract to promote open-ended hiring”) with lower dismissal costs (33 days’ pay per year worked with a maximum of 24 monthly payments) that could be used for certain groups of workers (young, older or long-term unemployed, disabled, or conversion of temporary contracts into permanent contracts). The reform also clarified the objective-fair reasons for collective dismissals, which, according to the Law 63/1997, are identified as “economic reasons, in order to contribute to overcoming negative economic situations, or technical, organisational or production reasons, in order to overcome, through a better organisation of resources, difficulties that impede the proper functioning of the undertaking, either because of its competitive position on the market or because of demand requirements”.

These latter measures implied accepting that high dismissal costs discouraged the signing of open-ended contracts and encouraged the signing of fixed-term contracts and the replacement of permanent workers by temporary workers. Based on this belief, it was assumed that cheaper individual and collective dismissals would increase the signing of open-ended contracts and reduce the high number of fixed-term contracts that characterised the Spanish economy.

The 1997 labour reform had a positive effect, increasing both the number of new open-ended contracts and the conversion of fixed-term contracts into open-ended ones, so that the share of temporary workers fell from 33.6% in 1997Q3 to 32.0% in 2001Q2 thanks to the increase in permanent employment. Thus, permanent employment increased by 28.2% during this period, which means that 75% of the employment created during this period was permanent employment.

Nevertheless, since the 1997 labour reform, the Spanish economy has shown a different behaviour between public and private employment, with the result that the positive effects of the labour reform on permanent employment have been offset by the increase in temporary employment in public administrations. Thus, while the share of temporary employment in the private sector fell from 37.3% to 34.6% between 1997Q3 and 2001Q2, the share of temporary employment in the public sector increased from 17.1% to 20.8%, as permanent employment fell by 27,600 persons and temporary employment increased by 106,200 persons (+26%) (see Figure 1).

Although the 1997 reform gave a boost to open-ended contracts and reduced the share of temporary workers, the limits of the reform soon became apparent. For example, the increase in open-ended contracts was concentrated among high-skilled workers, leaving the use of fixed-term contracts as the norm for low-skilled workers. But the most serious problem was that, undesirably, the reduction in the share of temporary workers was accompanied by an increase in precariousness among temporary workers, as the average duration of fixed-term contracts was drastically reduced due to the explosion in the number of these contracts (Felgueroso et al. 2018): from 8.3 million fixed-term contracts signed in 1996 to more than 12.6 million in 2000. The increase in the number of fixed-term contracts, and therefore the shorter duration of these contracts, was accompanied by an increase in the weight of part-time contracts, which accounted for 18.2% of the total number of contracts signed in 2000, while part-time

open-ended contracts accounted for 19.7% of the total number of open-ended contracts signed that year (see Figure 3).

1.4 The 2001 Labour Reform

The exhaustion of the positive effects of the 1997 labour reform led the Partido Popular' government (now with an absolute majority after winning the general elections again in March 2000) to adopt a new labour reform in July 2001, which was not supported by social agents. In addition to promoting permanent hiring and reducing the share of temporary employment, the aim was to reduce job insecurity by trying to reduce the number of very short-term fixed-term contracts, especially those lasting less than seven days. To this end, the reform sought to encourage the use of part-time open-ended contracts as an alternative to fixed-term contracts. Thus, the reform removed the maximum limit on the number of hours worked in part-time contracts, which until then could not exceed 77% of the weekly working day, and facilitated a more flexible distribution of the working day in this type of contracts. In summary, the main measures were:

- Elimination of the time limit for signing open-ended employment contracts and extension of the groups with whom they can be agreed.
- Creation of a fixed-term (insertion) contract in the public administration for unemployed workers.
- Reducing the duration of fixed-term contracts.
- Establishment of a severance payment at the end of fixed-term contracts, due to the expiry of the agreed period or the completion of the work or service, of 8 days per year worked or, where appropriate, the amount determined by collective bargaining, with the exception of training, interim and insertion contracts.
- For part-time contracts, the upper limit of 77% of the working day was abolished and the distribution of working was made more flexible.
- New case of termination of contract for fair reasons in the public sector: open-ended contracts whose purpose was the implementation of public plans and programmes without stable financial provision could be terminated if the budget was insufficient to maintain the job.
- Increase in social security contributions paid by employers for contracts of less than 7 days.

Although permanent employment in Spain continued to grow after the 2001 reform, from 8.7 million in 2001Q2 to 10.7 million in 2006Q1, temporary employment also increased from 4.1 to 5.3 million workers. In fact, the share of temporary employment from 32% to 33.2%, due to a 5.2 percentage points increase in the temporary employment rate in the public sector. This higher temporariness was accompanied by an increase in the number of fixed-term contracts signed from 12.7 million in 2001 to 16.3 million in 2006, and an increase in the share of part-time contracts from 19% of all contracts signed in 2001 to 23.2% in 2006.

1.5 The 2006 Labour Reform

In June 2006⁶, the socialist government (which had won, without an absolute majority, the general elections of March 2004) adopted a new labour reform, which was not supported by the social partners. The 2006 reform aimed to accelerate productivity growth and to reduce the share of temporary workers. To this end, various measures were adopted to encourage both the signing of permanent contracts and the conversion of temporary contracts into permanent ones. The aim was to slow down the growth rate of fixed-term contracts and thus reduce the high share of temporary workers.

To encourage the conversion of fixed-term contracts into open-ended contracts, the 2006 reform extended until the end of 2007 the possibility of converting the fixed-term contracts signed before 31 December 2003 into the new open-ended contracts created by the 1997 reform (which, it should be recalled, included a lower severance payment compared to ordinary permanent contracts), while at the same time widening the range of workers who could sign this new permanent contract.

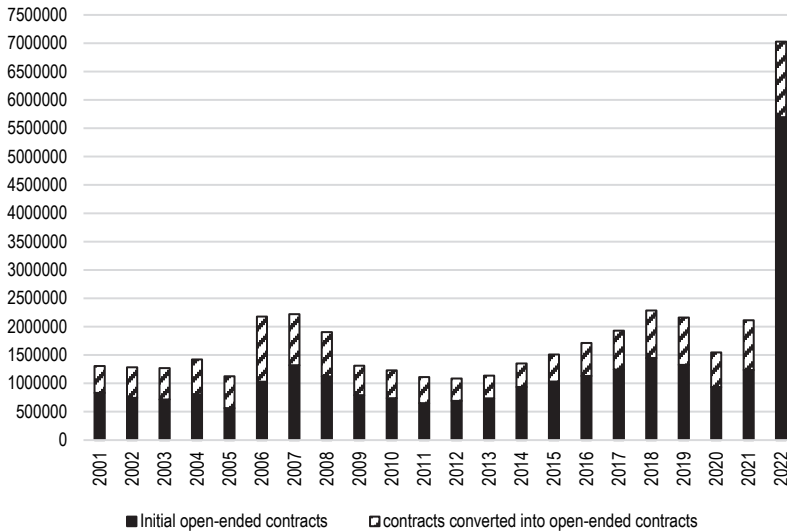
With regard to measures to discourage temporary employment, the reform approved the abolition of the insertion contract, the limitation of the maximum age for signing training contracts to 21 years and, in order to avoid the linking of temporary contracts, the time during which a company could employ the same worker for the same job through two or more temporary contracts was limited to a maximum of 24 months within a period of 30 months. In addition, the reform sought to encourage collective agreements to establish rules limiting the use of temporary contracts.

Overall, the results of the 2006 reform can be seen as positive. Between 2006Q2 and 2008Q2, salaried employment increased by 737,200 jobs. But permanent employment increased by 1.4 million workers, which meant that temporary employment fell by more than 600,000 workers, bringing the share of temporary workers down from 34.3% to 29.3%. It should be noted that the increase in permanent employment was almost entirely concentrated in the private sector. In the public sector, total employment, permanent and temporary, had little changed, with the share of temporary workers falling from 26.7 % to 25.5 %. In the private sector, however, the temporary share fell from 36% to 30.1%.

The increase in permanent employment was due to the increase in the number of initial open-ended contracts and the significant increase in the number of conversions from fixed-term to open-ended contracts, which doubled in 2006 compared with 2005 (Figure 4). However, from 2007 onwards, the number of contract conversions decreased, and the figure of conversions to open-ended fell from 1,149,485 contracts in 2006 to 779,700 in 2008.

The outbreak of the global financial crisis showed, as in the early 1990s, that the existence of excessive temporariness exacerbated the impact of an economic crisis on employment through the adjustment of temporary employment. Between 2008Q2 and 2010Q1, private sector employment fell by 1.7 million people (-12.3%), but while

⁶ In 2002, the Partido Popular's government approved that interim wages would not be paid if the employer acknowledged the unfairness of the dismissal and paid the unfair dismissal compensation 48 hours after the dismissal.



Source: Ministerio de Trabajo y Asuntos Sociales (2023).

Figure 4 Open-Ended Contracts

permanent employment fell by barely 500,000 workers (-5%), the destruction of temporary employment exceeded 1.2 million jobs, representing a 29.1% destruction of temporary employment in the private sector⁷. This massive destruction of temporary employment meant that the share of temporary workers in the private sector fell from 30.1% to 24.3%, confirming the importance of the business cycle in the evolution of the share of temporary employment. On the other hand, since the financial crisis the gap between the private and the public sector vanished, with the share of temporary employment in both sectors becoming equal. In fact, as we will see below, the problems of an excessive temporariness start to become more pronounced in the public sector, while the share of temporary workers in the private sector decreased.

1.6 The 2010 Labour Reform

In June 2010, the Socialist Party government approved a new labour reform, again without the consensus of the social agents. The aim of the reform was to reduce the segmentation of the labour market by reducing the share of temporary contracts and workers, in order to reduce the excessive volatility of the labour market, especially in terms of employment, which made employment overreact to cyclical fluctuations by increasing the employment/GDP elasticity in the short-term. In other words, a lot of jobs, mainly temporary, were created in expansions, but a similar number of temporary jobs were also destroyed in recessions, thereby fuelling the business cycle, so that employment no longer acted as an automatic stabiliser. As in previous reforms, the aim

⁷ In that period, public sector employment increased by 180,000 workers, with temporary employment decreasing slightly, allowing the share of temporary workers in the public sector to fall to 24%.

was to discourage the use of fixed-term contracts and to encourage the conversion of fixed-term contracts into open-ended ones. In addition, the reform sought to encourage the use of part-time (open-ended) contracts as an alternative to fixed-term contracts.

In order to reduce excessive temporariness, the 2010 reform adopted a series of measures aimed at tackling the causes of excessive segmentation in the Spanish labour market. The rationale behind these measures was based on the belief that the excessive use of fixed-term contracts was due to the difference in costs between open-ended and fixed-term contracts, especially in terms of dismissals, the lack of internal flexibility in terms of functional flexibility of the workforce and wage flexibility, and the problems of firms to adjust their workforce, especially in the event of a fall in demand, which led firms to make excessive use of temporary contracts (Wöflfl and Mora-Sanguinetti 2011).

In order to reduce the costs of adjusting open-ended contracts, the 2010 reform made it easier to terminate the employment promotion contracts (the open-ended contract created by the 1997 reform) in the case of individual dismissals (the so-called express dismissal), allowing the employer to declare the dismissal unfair and to pay the worker the compensation corresponding to an unfair dismissal, without the possibility of the worker rejoining the company, thus eliminating the payment of interim wages (possible since 2002). In the case of objective collective dismissals, it introduced a new formulation of the economic, technical, organisational or production (ETOP) reasons that allow the collective dismissal of permanent workers⁸. The aim of this change was to prevent the courts from deciding whether or not collective redundancies were justified, as was the case in most redundancy procedures. In many cases, these courts ruled against these procedures, leading companies to resort to unfair individual dismissals, which resulted in higher redundancy payments and therefore higher costs for the company.

On the other hand, to discourage the signing of fixed-term contracts, the reform increased the compensation on termination of temporary contracts to 12 days per year of service. It also introduced a limit on the duration of the fixed-term contract for specific work and services (3 years, renewable by collective agreement for a further 12 months). In addition, it limited the linking of temporary contracts by requiring that workers who have been employed for more than 24 months in 2 or more contracts within 30 months be automatically converted to permanent workers.

In order to encourage the signing of open-ended contracts, the reform widened the groups of beneficiaries (first contracts and conversions) of the open-ended

⁸ According to the 2010 reform, "Economic reasons are deemed to exist if the company's results show a negative economic situation. For this purpose, the company must prove the alleged results and justify that the reasonableness of the dismissal decision can be minimally deduced from them. It is understood that there are technical causes when, inter alia, there are changes in the means or instruments of production; organisational causes when, inter alia, there are changes in the systems and working methods of the personnel; and productive causes when, inter alia, there are changes in the demand for the products or services that the company intends to place on the market. To this end, the company must prove the existence of one of the aforementioned causes and justify that the decision to dismiss is at least justified in order to contribute to improving the company's situation or preventing its negative development through a more appropriate organisation of resources, which will favour its competitive position on the market or a better response to demand" (Real Decreto-ley 10/2010, de 16 de junio, de medidas urgentes para la reforma del mercado de trabajo).

employment promotion contract and reduced the subsidies for open-ended hiring, concentrating them on the groups most affected by temporary work, mainly young people.

With regard to the internal and wage flexibility of firms, the 2010 reform favoured the reduction of working hours over the temporary suspension of contracts in collective redundancy plans, allowing a more flexible use of temporary work agencies. In order to promote internal flexibility, significant changes (collective and individual) in working conditions (working hours, working time, remuneration systems, functions, etc.) were facilitated (as an alternative to external flexibility). In the case of individual changes, if the employee does not accept them, he/she receives compensation equivalent to that of an objective dismissal. Finally, the use of company opt-out clauses in sectoral collective agreements became more flexible, particularly with regard to wage increases.

The economic recession of 2011 and 2012 had a significant impact on the Spanish labour market, leading to an intense process of falling employment and rising unemployment. Between 2010Q2 and 2012Q2, the number of employees in the private sector fell by 872,000 persons, with the peculiarity that the largest adjustment took place among permanent employees, whose number fell by 549,000 persons, compared with a decline in temporary employment of 323,000 persons.

1.7 The 2012 Labour Reform

In this difficult economic context, in July 2012 the conservative government of the Partido Popular, who came to power after winning the 2011 elections with an absolute majority, once again without the consensus of the social partners and in particular with the opposition of the trade unions, approved what has probably been the deepest labour reform of recent decades. The 2012 reform aimed to make the labour market more flexible in order to stimulate job creation and reduce the high unemployment rate, which reached 24.8% in 2012. To achieve these objectives, it was considered essential to reduce the excessive segmentation or dualisation of the labour market by increasing open-ended contracts and reducing fixed-term contracts. The key to achieving this objective was the adoption of a battery of measures to promote the use of open-ended contracts, the reduction of dismissal costs for these contracts and the adoption of various measures to promote internal flexibility.

With regard to the measures promoting the use of open-ended contracts, the reform concentrated recruitment subsidies on the groups most affected by unemployment (young people, women and the long-term unemployed workers) and on open-ended contracts. The reform also authorised the creation, if the unemployment rate exceeded 15%, of full-time open-ended contracts to support entrepreneurs (for small companies with fewer than 50 employees), which were granted a series of fiscal advantages in terms of both the payment of corporation tax and the payment of employers' social security contributions. Although the reform abolished the contract for the promotion of permanent employment created by the 1997 reform, it nevertheless provided for a substantial reduction in the redundancy costs for all permanent contracts, setting them generally at 33 days per year worked, with a ceiling of 24 monthly payments. Another measure that reduced the effective cost of unfair dismissal was the

abolition of interim wages in unfair dismissal cases where the employer opted for compensation.

On the other hand, it favoured collective dismissals on economic grounds by again amending the ETOP grounds to allow both individual (including new grounds such as the worker's inability to adapt or absenteeism) and collective dismissals⁹. However, this increased ability of employers to determine whether collective dismissals were justified for objective reasons was in practice countered by Supreme Court decisions limiting employers' ability to do so (Wöfl and Mora-Sanguinetti 2011; Felgueroso et al. 2018).

The reform included the modification (reduction) of wages as a significant modification of working conditions, so that if the wage adjustment was justified by problems related to competitiveness, productivity or technical or work organisation in the enterprise, if the employee (or group of employees) did not accept the wage adjustment, the redundancy (individual or collective) would be considered fair (and therefore subject to a lower compensation).

Directly related to this measure, the reform allowed the possibility of dismissing public sector employees for economic, technical, organisational and productive reasons, thus opening up the possibility of dismissals in the public sector in a context of economic crisis and budgetary adjustments to reduce high deficit and public debt figures.

To encourage the use of part-time contracts as an alternative to fixed-term contracts, the reform allowed overtime. Regarding geographical and functional flexibility, the reform allowed greater flexibility in terms of geographical and functional mobility and the distribution of the annual working day.

Another key measure of the reform was that, in order to avoid workforce adjustments (collective redundancies) in situations of falling demand, it favoured the adoption of *Expendientes de Regulación Temporal de Empleo* (ERTE), a job preservation scheme that facilitates temporary processes of contract suspension and reduction of working hours for economic, technical, organisational or production reasons¹⁰.

Finally, the reform addressed a number of key elements of the legal framework for collective bargaining, giving greater weight to the employer side, as opposed to the trade union side, and establishing the primacy of company agreements over sectoral agreements¹¹. Among other things, it extended company opt-out clauses to working conditions set out in agreements above company level, gave priority to the application of company agreements in several key areas, which are now established as absolute

⁹ According to the 2012 reform, "economic causes are understood to exist when the company's results show a negative economic situation, in cases such as the existence of current or expected losses, or the persistent decrease in the level of its ordinary income or sales. In any case, the decline is considered to be persistent if, for two consecutive quarters, the level of ordinary income or turnover is lower in each quarter than in the same quarter of the previous year. Technical causes include changes in the means or instruments of production; organisational causes include changes in the systems and working methods of the personnel or in the way production is organised; and productive causes include changes in the demand for the products or services which the enterprise intends to put on the market" (ley 3/2012, de 6 de julio, de medidas urgentes para la reforma del mercado laboral).

¹⁰ A tool that proved key during the Covid-19 pandemic.

¹¹ In 2011, the Socialist government approved a reform of collective bargaining that established the primacy of company agreements over sectoral agreements, unless the latter provide otherwise.

and non-waivable, without the possibility of a contrary agreement at state or regional level, and eliminated the ultra-activity of collective agreements, limiting the validity of the collective agreement to one year once it has been denounced, if no agreement was reached on a new agreement, and unless otherwise agreed.

The economic recovery that started in 2014 was accompanied by strong employment growth, with private employment increasing by 2.3 million workers between 2014Q1 and 2020Q1, permanent employment by 1.7 million and temporary employment by 600,000. Until mid-2017, there was a very strong increase in temporary employment, with the share of temporary workers in the private sector rising to 28.2 per cent in 2017Q3. However, from then until 2020Q1, there was a strong increase in permanent employment, accompanied by a decrease in temporary employment, bringing the share of temporary employment down to 24.4%. In contrast, in the public sector, permanent employment remained stagnant, and from 2014 onwards there was a sharp increase in temporary employment, bringing the share of temporary workers to 27.5% in 2020Q1. Indeed, since 2019, the share of temporary employment in the public sector has been higher than in the private sector (Figure 1).

The COVID-19 crisis had a huge impact on the Spanish economy, with real GDP falling by 11.3% in 2020Q1. However, the number of employees fell by only 561,000 workers (-3.4%). Both the slight increase in public employment and, above all, the operation of the *ERTEs* mechanism, approved in the 2012 reform, which meant that more than 3.5 million workers were placed in an ERTE, thus avoiding massive job destruction, contributed to this result.

From 2021 onwards, the return to economic growth boosted both permanent and temporary employment, with the share of temporary employment workers in the private sector returning to pre-pandemic levels (23.9% in 2021Q4). In contrast, in the public sector, the growth in temporary employment raised the share of temporary workers to 31% in the last quarter of 2021. These data suggests a certain exhaustion of the positive effects of the 2012 labour reform, as the Spanish labour market was unable to reduce the high level of temporary employment in a continuous and sustainable manner.

Although, as a result of the 2012 labour market reform, there was strong employment growth that came with a smaller labour segmentation between permanent and temporary workers, these results were accompanied by greater precariousness, characterised by both the proliferation of part-time contracts and very short-term fixed-term contracts (Felgueroso et al. 2018). In 2021, out of the 18.5 employment contracts signed, 6.1 million were part-time, and out of the 17.3 million fixed-term contracts, 4.5 million were for less than a week and 6.1 million for less than a month.

There was a general consensus that job insecurity led to social problems (low birth rate, late departure of young people from the family home...) and economic problems (slowdown in private consumption, poverty, inequality in income distribution...): hence the need to tackle the problem of excessive temporary employment and the short duration of temporary contracts. There was also a political motivation for further changes, promoted by the trade unions, who were in favour of a labour reform that would reverse the negative impact of the 2012 reform on trade union power, particularly as regards collective bargaining.

1.8 The 2021 Labour Reform

In December 2021, the minority coalition government between the Socialist Party and Podemos (which will come to power after the November 2019 elections), approved, with the support of social agents, the latest labour reform in Spain. In the area of collective bargaining, the reform meant, among other things, a return to the supremacy of the sectoral agreement over the company agreement, so that company agreements could not, under any circumstances, apply conditions below those provided for in the sectoral agreements on issues such as wages or working hours. It also meant a return to the ultra-activity of collective agreements, in such a way that expired agreements remain in force until a new one is agreed and an agreement is reached between the agents involved in its approval.

With regard to recruitment, the reform limited the possibility of using fixed-term contracts by stipulating that they can only be signed in certain circumstances (in the event of a need to replace a worker, unforeseeable increases/conditions of production and fluctuations in production that create a mismatch between required and available employment, e.g. holidays), and limited the maximum duration of these contracts to 12 months. It also limited the maximum duration of linked fixed-term contracts to 18 months. In order to discourage the signing of very short-term temporary contracts (less than 30 days), the reform established that the company must pay an additional contribution of 26 euros for each termination of the contract.

The reform included the disappearance of the contract for certain works and services¹². In the construction sector, where 70% of the contracts signed in 2021 were for specific works and services, a new permanent contract was created, the termination of which (if the worker could not be redeployed on another site) would entitle the worker to compensation equal to 7% of his salary.

In order to reduce the use of fixed-term contracts, the reform encouraged the use of permanent-discontinuous open-ended contracts (which already existed) to replace temporary contracts. These contracts are used for work that is seasonal or linked to seasonal production activities (e.g. in the agricultural sector or in the hotel, catering and tourism industries), or for work that is not seasonal but which, because it is intermittent, has specific, fixed or indefinite periods of performance (e.g. in sales campaigns in commerce). These contracts have the same severance pay as permanent contracts and can be used in temporary employment agencies, seasonal work and subcontracting.

If we analyse the impact of the 2021 reform on temporary employment, there is no doubt that the effects in the short-run have been very positive. In the private sector, between 2021Q1 and 2022Q4, permanent employment has increased by 1.5 million workers (+14.9%), while temporary employment has decreased by 1.2 million workers, a decrease of 36.6%. As a result, the share of temporary workers has fallen from 23.9% to 14.8%. In contrast, in the public sector, permanent employment increased by 63,000 workers (+2.6%), while temporary employment fell by only 12,000 workers (-1.1%). As a result, the temporary employment rate remained almost unchanged, falling

¹² In 2021, 7 million such contracts were signed.

from 31% to 30.2%, making temporary employment in the public sector twice as high as in the private sector.

2. Limitations of the 2021 Reform

Although the 2021 reform has undoubtedly had a positive effect in reducing the share of temporary workers, after more than a year of implementation there are doubts about its long-term impact, especially in a scenario of lower economic growth and, above all, in terms of resolving the precariousness that characterises a large part of Spanish employment. In this respect, as pointed out in the previous section, the decline in the share of temporary employment in the private sector has not been reproduced in the public sector, whose share of temporary workers in 2022 is more than double that of the private sector. Thus, between 2021Q4 and 2022Q4, the share of temporary workers fell by 9.1 percentage points in the private sector, but only by 0.8 percentage points in the public sector.

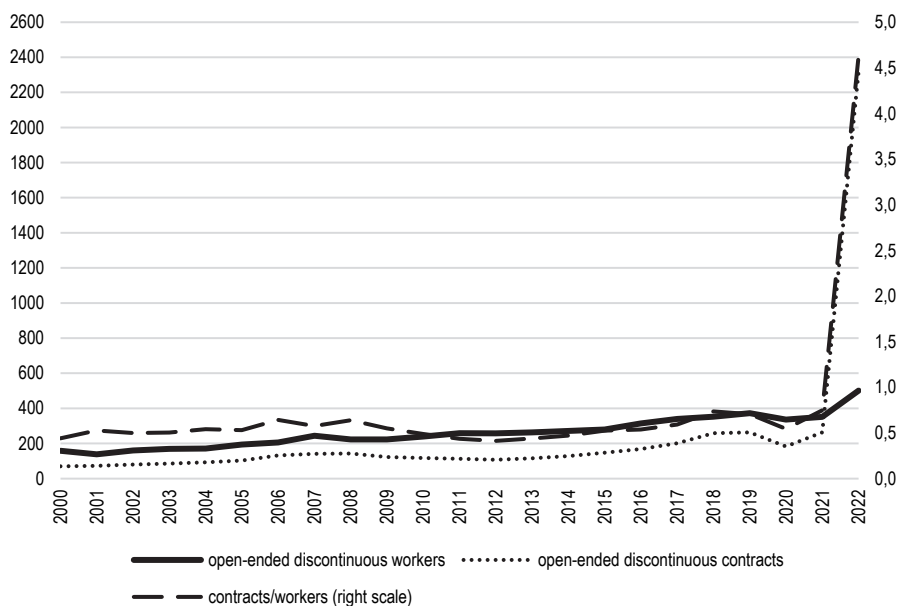
One of the uncertainties regarding the impact of the 2021 reform relates to the behaviour of discontinuous open-ended contracts, which were proposed as an alternative to fixed-term contracts, particularly in sectors with a strong seasonal character, such as agriculture or tourism. As Figure 5 shows, the number of these contracts increased from 263,000 in 2021 to 2.3 million in 2022, representing 12.7% of all contracts signed in 2022, and a third of all open-ended contracts signed in 2022, compared with just over 12.4% in 2021.

This explosion in the number of discontinuous open-ended contracts has not been matched by a similar increase in the number of open-ended employees, which have risen from 351,000 in 2021 to 501,000 in 2022. In other words, the increase of more than 2 million such contracts has barely translated into an increase of 150,000 employees with this type of contract. As the figure 5 shows, the ratio of discontinuous open-ended contracts to discontinuous open-ended employees has exploded. Whereas in 2021 there were 0.75 contracts for each discontinuous permanent employee, by 2022 this ratio had risen to 4.63.

This surprising result raises serious questions. By definition, discontinuous-permanent workers are counted as employed workers in the employment data provided by the Labour Force Survey (LFS), regardless of whether they are active or inactive, and consequently during the period of inactivity they do not inflate the unemployment figures, despite that they can be receiving the unemployment benefits to which they are entitled. Therefore, the number of permanent discontinuous workers should be much higher, reflecting the increase in this type of contract. One possible explanation for this conundrum could be that the LFS counts employees on open-ended contracts as permanent employees, which would lead to an overestimation of permanent employees and an underestimation of employees on discontinuous open-ended contracts.

However, it is also possible that what is happening is that companies are hiring workers for short-term activities using this type of permanent contract rather than a fixed-term contract as was the case in the past, and companies may be dismissing these workers at the end of the period of activity. Thus, if in the past a temporary worker combined several temporary contracts and periods of unemployment in one year, now a permanent discontinuous worker would combine several permanent discontinuous

and/or temporary contracts and periods of inactivity. Moreover, these contracts would not guarantee job stability, as in many cases the employer would opt for dismissal. In other words, discontinuous contracts would not offer the guarantee of job stability that ordinary open-ended contracts offer in principle, and would in practice constitute a new form of precarious and unstable work.

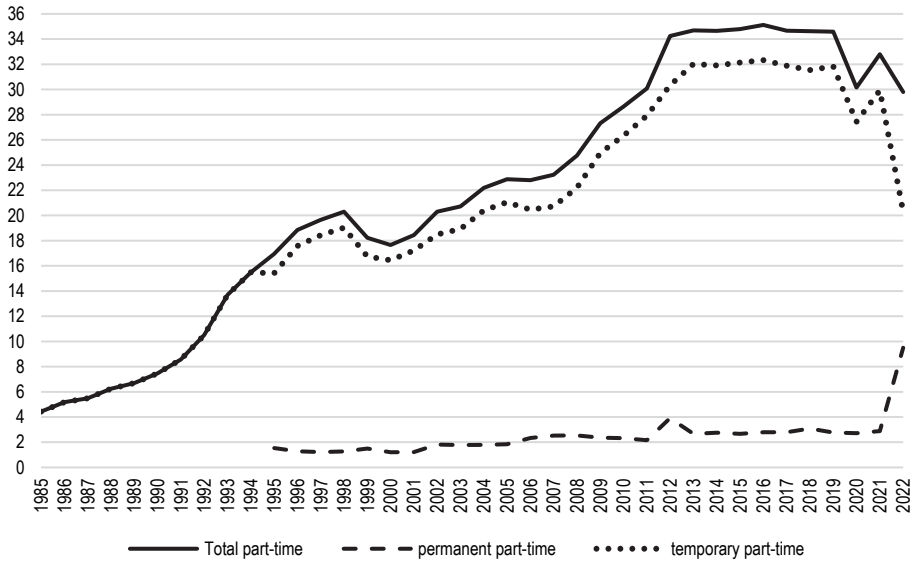


Source: Our calculations based on Instituto Nacional de Estadística, Labor Force Survey, and Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

Figure 5 Discontinuous Open-Ended Contracts and Employees

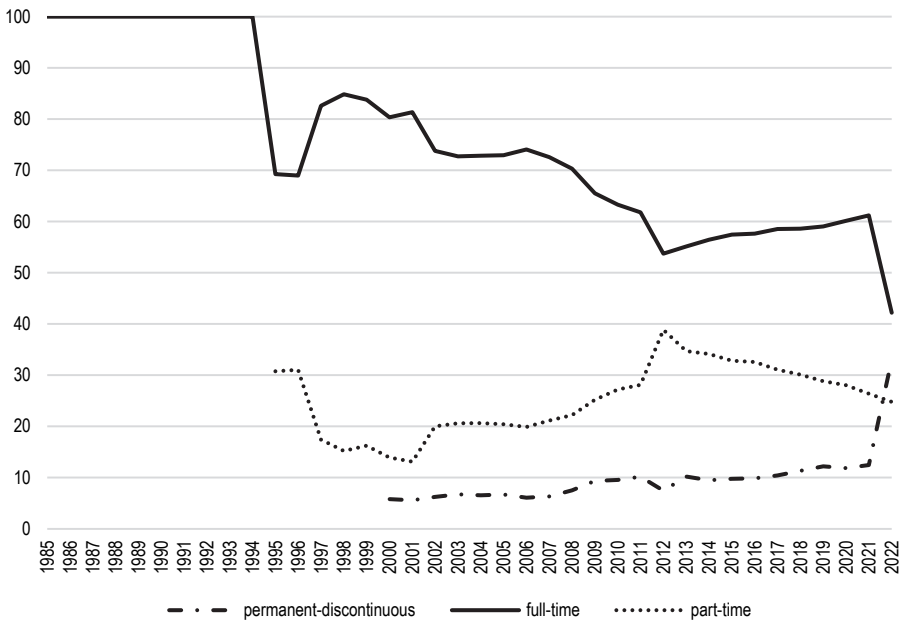
Another uncertainty surrounding the long-term effectiveness of the 2021 reform is that, although it has reduced temporary employment, the weight of part-time contracts has not evolved to the same extent. As Figure 6 shows, in 2022, part-time contracts accounted for 30% of all new contracts. Although this share is lower than in the previous decade, this is due to the decline in temporary part-time contracts, which fell from 5.8 million in 2021 to 3.7 million in 2022. However, the number of permanent part-time contracts tripled in 2022, from 558,000 to 1.74 million, or 9.5% of all contracts.

The increase in discontinuous and part-time open-ended contracts has meant that these atypical or precarious permanent contracts have gained weight in the Spanish labour market. Thus, an analysis of the composition of open-ended contracts (Figure 7) shows that full-time open-ended contracts account for only 42% of total open-ended contracts, almost 20 percentage points less than in 2021, a decrease explained by the increase in the weight of discontinuous open-ended contracts.



Source: Ministerio de Trabajo y Asuntos Sociales (2023).

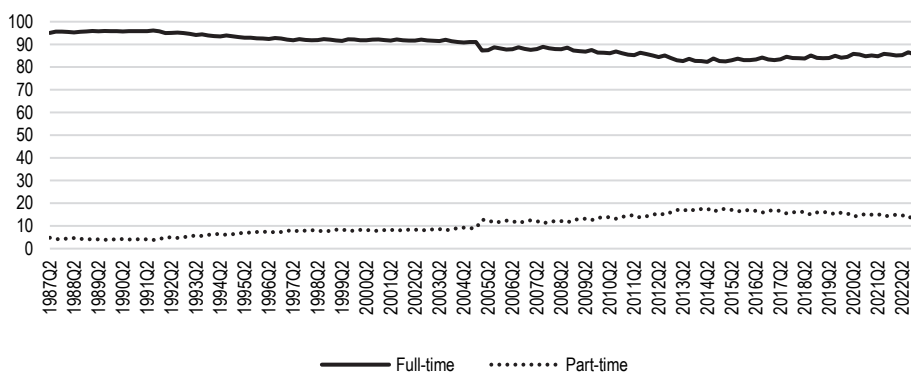
Figure 6 Part-Time Contracts (% Total Contracts)



Source: Our calculations based on Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

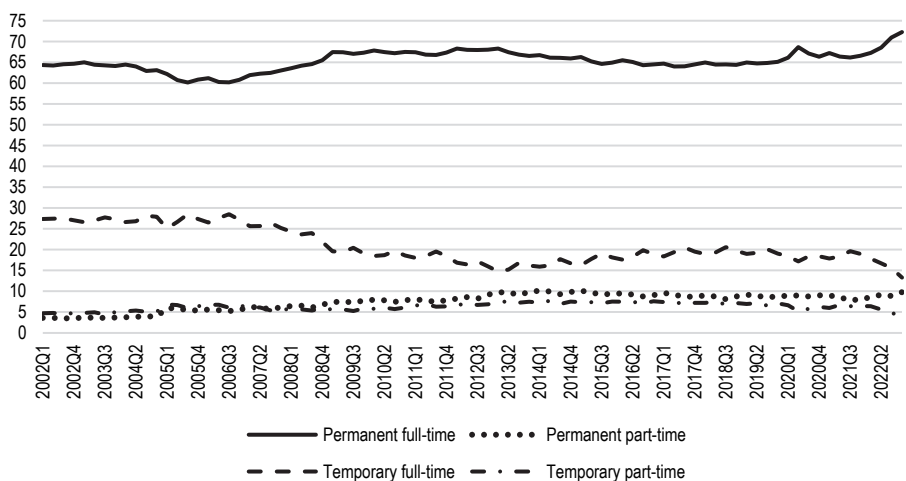
Figure 7 Types of Open-Ended Contracts (% Total Open-Ended Contracts)

Figure 8 shows the continued growth of part-time employment in Spain. Although temporary employment has decreased, we are witnessing the replacement of one type of precarious employment, temporary employment, by another precarious employment, part-time employment. In fact, the data in Figure 9 show that standard employment, full-time permanent employment, barely exceeds 72% of salaried employment in 2022, and although this percentage increases by almost 6 percentage points in 2022, it should be borne in mind that part of this increase is explained by the increase in permanent discontinuous contracts, which are assumed to be full-time. This behaviour casts doubt on whether the 2021 reform is really helping to create quality jobs, in addition to reducing the excessive temporary nature of the Spanish labour market.



Source: Our calculations based on Instituto Nacional de Estadística, Labor Force Survey.

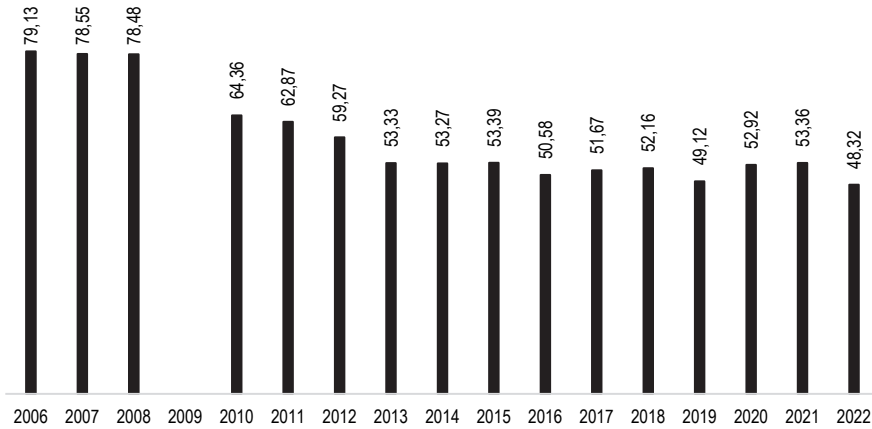
Figure 8 Full-Time and Part-Time Workers (% Total Employees)



Source: Our calculations based on Instituto Nacional de Estadística, Labor Force Survey.

Figure 9 Percentage of Total Employees

Another problem that calls into question the positive effects of the reform relates to the objective of reducing very short fixed-term contracts. Although the original objective of the 2021 reform has led to a sharp reduction in the number of temporary contracts signed, but the average duration of these contracts has been reduced and, as Figure 10 shows, the current figure of just over 48 days is the lowest since official data on contract duration are available, one month lower than in 2006 and five days lower than in 2021.



Notes: Data for 2009 are not available.

Source: Our calculations based on Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

Figure 10 Average Duration of Fixed-Term Contracts (Days)

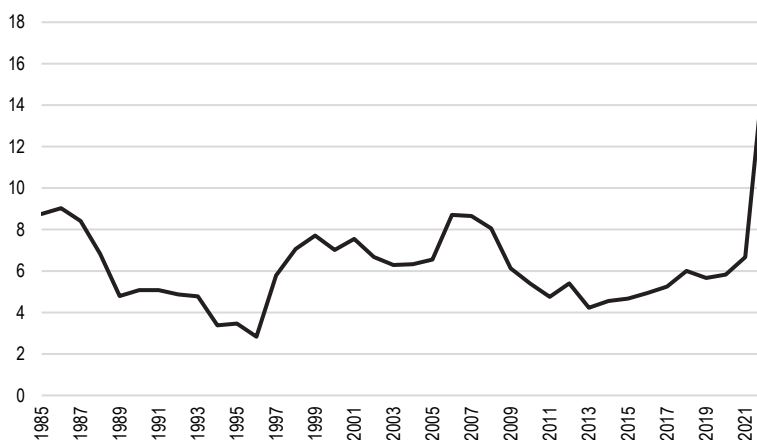
Table 1 Fixed-Term Contracts

	Total	Less 7 days	7-15 days	15 days-1 month	1-3 months	3-6 months	6-12 months	More than 12 months	Indeterminate
2006	16349527	2718426	707499	1473106	2456728	1787368	420877	93340	6692183
2007	16401724	2805703	674896	1505235	2427159	1719512	421588	96267	6751364
2008	14698632	2714166	642716	1400040	1989321	1394552	391456	108160	6058221
2009	12709423	2514080	623365	1315829	1539184	1009906	308375	94796	5303888
2010	13188936	2790391	649583	1386122	1554274	1036522	298870	71207	5401967
2011	13323069	2910054	689779	1382188	1540300	1061267	296666	75871	5366944
2012	12683356	3059338	674835	1291960	1389401	849985	292075	71853	5053909
2013	13657665	3437393	734371	1362462	1418768	862890	334341	43411	5464029
2014	15376758	4016177	799773	1509914	1515185	964777	379582	54939	6136411
2015	17067115	4588513	864597	1550518	1723827	1102697	438925	58600	6739438
2016	18265692	5137841	899660	1596051	1881092	1205946	384517	65138	7095447
2017	19572053	5570581	940221	1634997	2009453	1365626	432839	71988	7546348
2018	20006757	5948078	939534	1625158	2073196	1382909	462355	85686	7489841
2019	20352787	6141028	965808	1634172	2191194	1460188	456117	56790	7447490
2020	14397451	3384817	795196	1356140	1582647	897341	308798	51392	6021120
2021	17271018	4463227	898919	1509732	2049157	1230726	374963	63818	6680476
2022	11283183	3619731	974692	1296386	1848522	961847	220979	52750	2308276

Source: Our calculations based on Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

To understand this fact, it is useful to look at the data in Table 1, which shows the evolution of fixed-term contracts by duration between 2006 and 2022. As noted above, the Spanish labour market was characterised not only by a high number of temporary contracts, but also by the short duration of temporary contracts. Behind this short duration was the increasing weight of very short contracts of less than 7 days.

Since 2006, the weight of contracts of less than 7 days has increased, from 16.6% in 2006 to 30.2% in 2019. Open-ended contracts of indeterminate duration accounted for almost 40%, albeit with a slight decrease. The 2021 reform has led to a sharp fall in these contracts, from 6.7 million in 2021 to 2.3 million in 2022. This means that the fall in the number of fixed-term contracts of indeterminate duration accounts for 73% of the fall in temporary contracts registered in 2022. Contracts of less than 7 days has fallen by just over 800,000 workers, a fall of 23%, far less than the fall of more than 63% in fixed-term contracts. In fact, the increase of more than 80,000 in contracts between 7 and 15 days is surprising. The result is that in 2022, contracts of less than 15 days account for 41% of fixed-term contracts signed that year, up from 31% in 2021 and well above the 21% they represented in 2006. These data suggest that the reform has not served to tackle one of the endemic problems of the Spanish labour market, namely the precariousness resulting from the very short duration of temporary contracts.



Source: Our calculations based on Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

Figure 11 Ordinary Full-Time Open-Ended Contracts (% of Total Contracts)

As a direct consequence of the above, despite the decrease in fixed-term contracts and the increase in open-ended contracts, the weight of what could be considered standard, i.e. a full-time open-ended contract, although growing, remains very low. As Figure 11 shows, this type of contract accounted for only 16.2% of contracts signed in 2022. Bearing in mind that this figure includes data on temporary contracts converted into full-time open-ended contracts, a figure that is unlikely to be repeated in the coming years given the decline in the number of temporary workers, it is not an

exaggeration to suggest that this percentage may have peaked and may even decline in the next year, so that the problem of precariousness would continue to exist even with lower temporary employment.

As noted in the previous section, the positive results in terms of reducing the share of temporary workers in the private sector have not been replicated in the public sector, with the result that in the public sector this share is more than double that in the private sector (see Figure 1). Although the number of open-ended contracts in the public sector doubled in 2022 (initial open-ended contracts increased from 5872 to 12016 and contracts converted to open-ended contracts increased from 1252 to 2501), their number is very small compared to fixed-term contracts. As Table 2 shows, in 2022 fixed-term contracts accounted for 96.8% of all contracts signed in the public sector, only 1.7 percentage points less than in 2021. On the contrary, in the private sector, fixed-term contracts have been drastically reduced from 88.9% to 60.7%.

Table 2 Contracts Signed in Public and Private Sectors (Percentage of Total Contracts)

	Public administration, defence and social security			Rest of sectors		
	Initial open-ended	Converted into open-ended	Fixed-term	Initial open-ended	Converted into open-ended	Fixed-term
2006	1.69	0.63	97.69	5.65	6.36	87.99
2007	2.64	0.89	96.47	7.20	4.95	87.85
2008	1.80	0.50	97.70	6.91	4.82	88.27
2009	2.09	0.75	97.16	10.89	7.20	81.90
2010	1.22	0.50	98.28	5.26	3.50	91.24
2011	1.27	0.47	98.26	4.61	3.29	92.11
2012	1.10	0.32	98.58	5.11	2.94	91.95
2013	1.20	0.24	98.57	5.08	2.77	92.15
2014	0.78	0.31	98.92	5.73	2.54	91.73
2015	0.82	0.33	98.85	5.68	2.64	91.68
2016	0.73	0.34	98.93	5.78	2.97	91.25
2017	0.78	0.32	98.90	5.90	3.26	90.84
2018	0.75	0.28	98.97	6.62	3.84	89.54
2019	0.91	0.62	98.47	5.99	3.78	90.23
2020	0.93	0.28	98.79	6.00	3.91	90.08
2021	1.22	0.26	98.52	6.50	4.64	88.86
2022	2.66	0.55	96.79	31.82	7.45	60.73

Source: Our calculations based on Ministerio de Trabajo y Asuntos Sociales, Movimiento Laboral Registrado.

It is surprising that, since 2019, the share of temporary employment in the public sector has been higher than in the private sector, and that the gap between the two sectors has widened as a result of the recent labour reform, which shows a clear lack of political will on the part of the different public administrations in Spain to tackle the problem of job insecurity in the public sector.

3. Conclusions

In recent decades, the Spanish labour market has been characterised by a high share of temporary employment, as a result of the measures adopted in the 1984 reform to make the use of fixed-term contracts more flexible. The recognition of the negative micro- and macroeconomic effects of excessive temporary employment led to the adoption of successive labour reforms since 1994, aimed at reducing the share of temporary workers, encouraging the use of open-ended contracts and discouraging the use of fixed-term contracts. Slowly until the 2006 reform, and more rapidly since then, the share of temporary workers has been falling, at least in the private sector.

However, this positive effect has been accompanied by an increase in temporary employment in the private sector and an increase in part-time and very short-term fixed-term contracts. These trends were accentuated by the reforms of 2010 and 2012, which, while contributing to an increase in permanent employment and a reduction in the share of temporary workers in the private sector, also brought with them an increase in the total number of fixed-term and very short-term contracts, an increase in part-time contracts and an increase in temporary employment in the public sector.

These processes imply a change in the nature of precariousness and the segmentation of the Spanish labour market. If, until the end of the 1990s, precarious employment was identified with temporary contracts, and labour segmentation was established between permanent and temporary workers, in the last two decades labour precariousness can be identified not only with temporary contracts, but also with part-time (both open-ended and fixed-term) and very short-term temporary contracts. This has led to a new segmentation between workers on full-time permanent contracts and the rest of the workforce.

Although the 2021 reform has been effective in reducing the share of temporary employment and increasing permanent employment, at least in the private sector, it has not been as effective in eliminating the precariousness of the labour market. This is due to the significant increase in part-time employment and the fact that the impact on very short-term fixed-term contracts has not been as expected, resulting in a decrease in the average duration of fixed-term contracts. In addition, there has been a clearly excessive increase in the number of discontinuous open-ended contracts. This is leading to a new form of labour segmentation in the private sector between workers with ordinary full-time permanent contracts and those with part-time, temporary or discontinuous open-ended contracts.

On the other hand, the 2021 reform has widened the gap between private and public employment behaviour. The positive results of the reform in terms of employment in the private sector have not been reflected in the public sector, whose share of temporary workers is twice as high as in the private sector. Suffice it to say that although in 2022Q4 the public sector accounted for 20.3% of total employees in Spain, public sector temporary employment accounted for 34.2% of total temporary employment.

According to the explanatory memorandum of the 2021 reform, the objectives of the reform were to achieve the “great transformation of the Spanish labour market”, to “complete once and for all the transition of our labour relations to a fairer and more secure model” and to “lay the foundations of a new social contract”. The above data

casts doubt on the achievement of these objectives. It should be borne in mind that the positive results have been achieved in a context of economic growth, and there are legitimate doubts about how the different categories of jobs and contracts would fare in an environment of recession or a severe slowdown in economic growth.

On the other hand, there is a clear need to adopt new measures to reduce the excessive temporariness and precarious nature of public employment, bringing it closer to levels similar to those in the private sector, as well as other measures to effectively reduce the use of very short-term contracts, to increase the use of full-time contracts and to avoid the irregular use of discontinuous open-ended contracts, thus reducing atypical or precarious contracts.

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