

Reforming an Insider-Outsider Labor Market: The Spanish Experience*

Samuel Bentolila
CEMFI

Juan J. Dolado
Universidad Carlos III

Juan F. Jimeno
Banco de España

October 2011

Conference version, first draft

Abstract

This paper presents a case study on reforming a very dysfunctional labor market with a deep insider-outsider divide, namely the Spanish case. We show how a dual market, with permanent and temporary employees makes real reform much harder, and leads to purely marginal changes that do not alter the fundamental features of labor market institutions. While the Great Recession and the start of the sovereign debt crisis triggered two labor reforms, the political economy equilibrium has not allowed them to be transformational enough.

KEYWORDS: Temporary contracts, dualism, labor market reform, political economy, Great Recession.

JEL CODES: H29, J23, J38, J41, J64.

*Prepared for the OECD/University of Maryland Conference on “Labour Activation in Times of High Unemployment”, Paris, 14-15 November 2011. We are very grateful to Florentino Felgueroso, J. Ignacio García-Pérez, and Marcel Jansen for help and for letting us use their data.