TEMPORARY EMPLOYMENT ACCOUNTS IN SPAIN FOR ABOUT ONE THIRD OF TOTAL SALARIED EMPLOYMENT SINCE THE MID-EIGHTIES, WHICH TRIPLES EUROPEAN FIGURES. IN THE NINETIES, TWO LABOUR MARKET REFORMS WERE IMPLEMENTED IN AN ATTEMPT TO REDUCE THE VERY HIGH INCIDENCE OF TEMPORARY EMPLOYMENT, ACHIEVING SOME POSITIVE EFFECTS ON EMPLOYMENT. HOWEVER, WE STILL HAVE A VERY LIMITED KNOWLEDGE OF THE LIKELY EFFECTS ON EARNINGS LEVELS AND DYNAMICS.

SINCE THE REFORM APPLIED ONLY TO CERTAIN AGE GROUPS, IN THIS PAPER WE USE A NATURAL EXPERIMENT RESEARCH DESIGN TO ASSESS THE IMPACT OF THE 1997 REFORM ON THE STATICS OF EARNINGS. USING DATA ON THE SPANISH COMPONENT OF THE ECHP, WE FIND POSITIVE EFFECTS ON EARNINGS LEVELS OF YOUNG MEN SIGNING NEW CONTRACTS FROM UNEMPLOYMENT.

IN THIS PAPER, WE ALSO INVESTIGATE THE CONSEQUENCES OF SPANISH LABOUR MARKET REFORMS OF 1994 AND 1997 ON EARNINGS DYNAMICS. WE PROVIDE A LONGITUDINAL PERSPECTIVE ON CHANGES IN SPANISH MALE EARNINGS INEQUALITY FOR THE PERIOD 1993-2000, DECOMPOSING INDIVIDUAL EARNINGS INTO ITS PERMANENT AND TRANSITORY COMPONENTS BY FITTING ERROR COMPONENT MODELS TO THE COVARIANCE STRUCTURE OF INDIVIDUAL EARNINGS. FOR THIS PURPOSE WE ALSO USE THE EIGHT WAVES OF THE SPANISH COMPONENT OF ECHP.
The ECHP data corroborate the findings of previous studies in that cross-section earnings differences of male full-time employees remain rather constant between 1993 and 2001. However, the longitudinal analysis shows that such a pattern was determined by an increase of the permanent earnings component and a decrease of the transitory component. Our results suggest that the labour market reforms of 1994 and 1997, which granted more stability to temporary employment contracts and possibly fostered the subsequent decline in temporary employment, may have helped explain the observed reduction in earnings instability, which in turn explains most of the declining earnings inequality trend.

We also find that relative earnings persistence increases over the life-cycle, which implies lower mobility for older cohorts. A closer look by cohorts reveals that transitory differences account for most of the earnings dispersion only for the youngest one, which is consistent with the disproportionate incidence that temporary employment has on younger workers. As the age group that suffers temporary employment the most, the observed large fall in overall earnings dispersion —the largest of all cohorts—, due mainly to the fall in the transitory component, may perfectly be a reflection of the positive effects of the reforms.

**Keywords:** Temporary and permanent employment, labour market reforms, natural experiment research, earnings level and dynamics, covariance structure, minimum distance, Spain.

**JEL classification:** C23, D31, J31, J38