

SYMPOSIUM ON TEMPORARY WORK INTRODUCTION*



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European countries have adopted widely varying policies concerning employment protection. In economies where permanent workers have high levels of employment protection, temporary contracts can provide a mechanism enhancing labour market flexibility, since firms can adjust their workforces by varying the number of temporary workers. In Spain and, to a lesser extent, France – countries characterised by high levels of employment protection – there has been a dramatic growth in temporary jobs over the last 15 years. The experience of Britain provides a contrast, since weak employment protection has been associated with a low and stable percentage of the workforce in temporary jobs. Recently, EU policy makers have turned their attention to temporary jobs, and required the extension of employment protection to temporary workers.¹

This symposium gathers together comparative evidence on the nature and evolution of temporary work in countries with different regulatory frameworks and different labour market conditions. Some of the evidence is microeconomic, providing information on the extent to which temporary jobs are ‘good’ or ‘bad’ in terms of worker compensation and career possibilities. Other evidence is macroeconomic, and sheds light both on forces that may explain the rise in temporary work and on the consequences of an increased prevalence of temporary jobs. The four papers in the symposium examine temporary work in four EU countries: Britain, France, Spain and Sweden. The reason for looking across countries is that the differing institutions in each country – notably the degree of employment protection – allow us to examine different features of temporary work. Britain provides the benchmark case where weak employment protection means that the outcome follows an essentially unregulated market. Sweden and France have maintained employment protection at about the average levels in Europe for the past fifteen years. Both, however, show sharp rises in temporary work over the period, although – as discussed in the papers – possibly for very different reasons. Spain is an interesting extreme example where temporary work is far higher than

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¹ Temporary work is increasingly falling under the aegis of EU Directives, as indicated in the 1999 EU Directive concerning the framework agreement on fixed-term work. For information, see the Department of Trade and Industry site (<http://www.dti.gov.uk/er/europe/directives.htm>).

elsewhere in the EU, despite several reforms attempting to reduce employment protection restrictions over the last 15 years. In effect, Spain represents the opposite extreme to the British experience.

1. A Framework for Analysis

'Temporary employment' has a number of different meanings. Some temporary work (for example, farm or vacation employment) is, by its nature, seasonal or casual. For other jobs, where the work itself does not dictate temporary employment, the job is temporary due to a characteristic of the *employment contract* under which the worker is hired, namely its fixed term duration. Throughout this symposium, we distinguish between seasonal/casual temporary jobs, on the one hand, and fixed term contract employment on the other. In some cases, it may be efficient for seasonal/casual workers to hold their jobs on a temporary basis given that this fits the demand for their labour. The same can be true for fixed term contracts for several different reasons. Hence, it is useful to distinguish between the following types of temporary work:

1 Employment under *probation*

In some countries, the regular employment contract specifies an initial period during which the worker can be fired if unsatisfactory without the termination costs that apply at later stages of the employment relationship. In other countries, an initial temporary contract serves the same function – an unsatisfactory worker will not be offered a permanent contract at the end of the temporary appointment. This will typically be the case if the employment protection legislation (EPL) limits the use of probationary periods in regular employment contracts.²

2 Temporary workers under *replacement contracts*

These may substitute for permanent workers on leave for different reasons, including maternity or disability/sickness.

3 Temporary workers under *fixed term contracts*

These may serve as a buffer stock that allows firms to adjust to changes in the business environment due to seasonal or other transitory causes.

These reasons for fixed term contracts assume an environment where permanent workers have high employment protection, but temporary workers do not. They also depend on the ability of firms to offer temporary contracts, a right that is limited in some European countries.

We now look at data from European countries to put our four country studies into perspective, and to provide preliminary indications as to whether there are relationships between employment protection and the extent of temporary work. Table 1 summarises the incidence of temporary employment in EU countries and lists restrictions applying to the use of these contracts in the 1990s. Since the

² There is evidence of this in Spain, for example, where the maximum length for probationary periods is six months for professionals and two months for non-professionals, according to Article 14 of the Workers' Statute. The same happens for apprenticeship contracts that cannot exceed three years.

Table 1
Temporary Employment Across Europe

	% Temporary employees				Restrictions to the use of fixed-term contracts
	1985	1990	1996	1998	
Spain	15.6	29.8	33.6	32.9	No restrictions for jobs of limited duration (seasonal, casual eventual jobs); since 1994, they cannot be used for permanent jobs
Men	14.4	27.8	31.9	32.1	
Women	18.4	34.2	36.7	34.4	
Finland	10.5	11.5	17.3	17.7	Can be used for temporary substitutions and special needs of firms of certain characteristics
Men	9.6		14.1	13.3	
Women	11.3		20.5	21.9	
Portugal	14.4	18.3	10.6	17.3	Can be used by new firms or to hire first job-seekers and long-term unemployed
Men	13.5	16.8	10.2	16.2	
Women	15.9	20.5	11.1	18.6	
France	4.7	10.5	12.6	13.9	Restricted to 'objective' situations: seasonal jobs, temporary substitutions, training contracts and some subsidised jobs in the public sector
Men	4.8	9.4	11.5	13.0	
Women	4.6	12.0	13.9	15.0	
Greece	21.1	16.5	11.0	13.0	Only for seasonal jobs
Men	21.8	16.9	10.5	12.0	
Women	19.6	15.0	11.9	14.7	
Sweden	10.6	10.1	13.8	15.5	Can be used for temporary substitutions, training contracts and transitory increases in production; also (since 1997) without reason for at most five employers within each firm
Men	n.a.	7.4	11.9	12.9	
Women	n.a.	12.8	15.8	18.1	
Germany	10.0	10.5	11.1	12.3	Could be used only under objective causes before 1986 and even without since then
Men	9.2	9.8	11.0	12.1	
Women	11.1	11.6	11.2	12.5	
Netherlands	7.5	7.6	12.0	12.7	Restrictions against repeated use
Men	5.9	6.1	9.1	10.2	
Women	10.8	10.2	15.9	16.1	
Denmark	12.3	10.8	11.2	10.1	For specific workers, mostly in professional services and the construction sector
Men	11.6	10.6	10.8	9.3	
Women	13.1	11.0	11.8	11.0	
Austria	n.a.	n.a.	8.0	7.8	No restrictions for the first contract
Men	n.a.	n.a.	8.1	8.0	
Women	n.a.	n.a.	7.9	7.7	
Italy	4.8	5.2	7.5	8.6	Since 1987, under any provisions established by collective bargaining agreements
Men	3.6	3.9	6.6	7.5	
Women	7.0	7.6	8.9	10.3	
Ireland	7.3	8.5	9.2	n.a.	No restrictions
Men	5.5	6.6	7.1	n.a.	
Women	15.5	17.6	22.2	n.a.	
UK	7.0	5.2	7.1	7.1	No restrictions
Men	5.7	3.7	6.0	6.0	
Women	8.8	7.0	8.2	8.3	
Belgium	6.9	5.3	5.9	7.8	No restrictions within the first two years of contract
Men	4.7	3.3	4.5	5.9	
Women	10.9	8.6	8.0	10.4	

Source: OECD (1999), Statistics Sweden (1997) and European Commission (1999).

mid 1980s, there has been a tendency, in most EU countries (the exceptions being Greece, the UK and greater Denmark), towards an increase in the percentage of temporary employees in the economy. This is associated with the introduction of new contractual types entailing greater flexibility, notably in Germany and Italy.³ Spain, after a widespread extension of fixed term contracts for regular activities, has moved in the opposite direction, limiting their use for permanent jobs. Nonetheless, Spain has also shown an increased percentage of temporary work at 33% of the workforce. Sweden has experienced a substantial rise in temporary work over the 1990s, following a sharp increase in unemployment. By the early 1990s, fixed term contracts accounted for 10% of the number of employees; by the end of the decade, they accounted for 15.5%. This development has taken place despite only marginal changes in the regulatory framework. Interestingly, the UK (along with Ireland) has a very low and stable rate of temporary work despite having no regulations against the use of such contracts. The USA – not shown in the table – had just 4.5% of its workforce in temporary work in 1999 (OECD, 2001).⁴ This lack of a simple relationship between restrictions on temporary contracts and the levels of temporary jobs in the economy motivates much of the analysis in this symposium.

One hypothesis is that the incidence of temporary jobs is positively related to EPL for permanent jobs, and negatively related to the extent of EPL for temporary jobs. Do the data across Europe support this hypothesis? Since there are many legal provisions affecting not only redundancies under a regular permanent contract but also the use of temporary contracts, it is not an easy task to summarise in a single indicator – the main differences in the degree of strictness of EPL across countries. Nonetheless, there have been several attempts at constructing such an indicator, the most widely used being that of the OECD (1999). This weights several provisions (notice period, severance payments, etc.) under both types of contracts. Figs 1a and 1b depict the relationship between the percentage of temporary employment and the OECD indicator of EPL strictness under both permanent and temporary employment, respectively. The sample consists of EU countries during the 1980s and 1990s, with the regression lines estimated from the cross country sample of 27 observations.⁵ The UK is found towards the origin, while Spain is an outlier towards the top of the figures. France and Sweden are found towards the middle.

As the figures illustrate, there is a positive relationship between the percentage of temporary contracts and both types of indicator, though this is much stronger with respect to the degree of EPL strictness regarding permanent contracts. The positive correlation in Fig. 1a can be interpreted as a clear sign that temporary contracts act as a way of providing employment flexibility in those countries with severe EPL for permanent jobs.

³ Fondazione Rodolfo De Benedetti (2000) presents a detailed account of EPL reforms in the EU over the 1986–97 period.

⁴ This figure for the USA relates to ‘contingent’ workers, that is, those expecting their work will end in the near future for economic as opposed to personal reasons (OECD, 2001, p. 118).

⁵ The sample comprises 14 EU countries for two time-periods, except for Austria which has just one observation for the 1990s (no data were available for Austria for the 1980s).

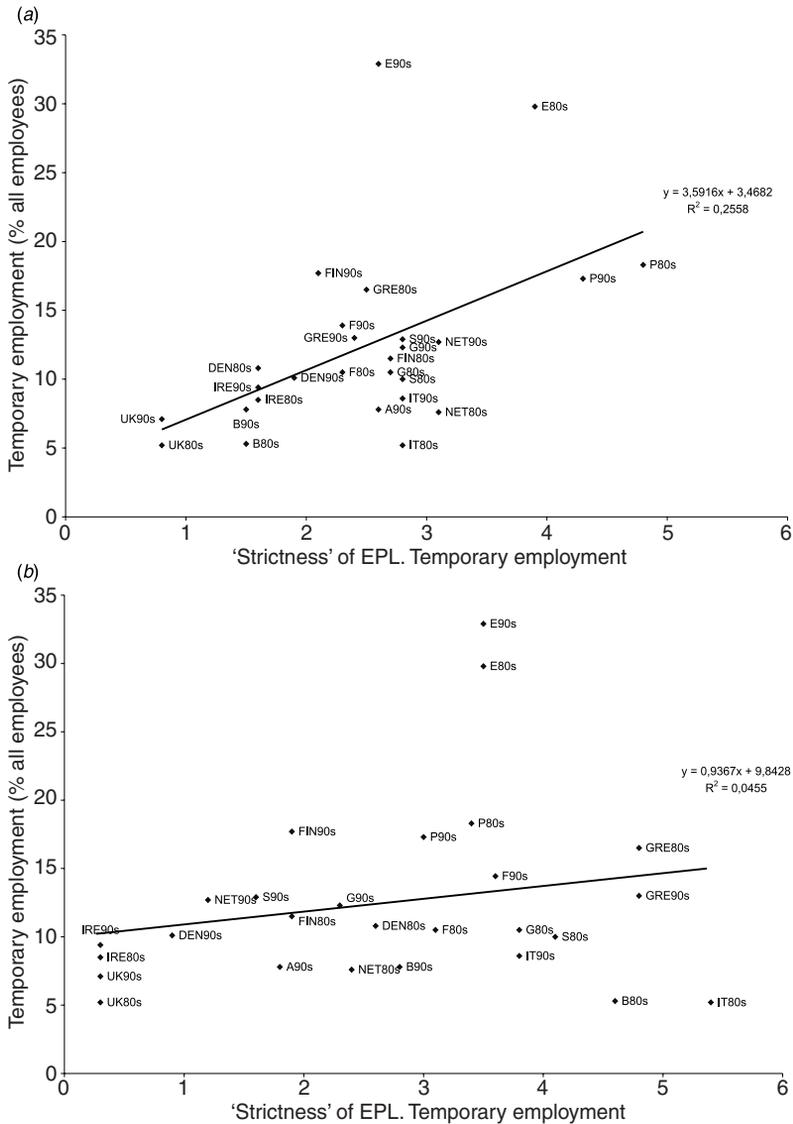


Fig. 1. (a) 'Strictness' of EPL (regular employment) and Temporary Employment

(b) 'Strictness' of EPL (temporary employment) and Temporary Employment

Source: OECD (1999) and European Commission (1999)

Legend: E: Spain, P: Portugal, FIN: Finland, GRE: Greece, F: France, S: Sweden, NET: The Netherlands, G: Germany, A: Austria, IT: Italy, D: Denmark, B: Belgium, IRE: Ireland, UK: United Kingdom

It is surprising, however, that temporary employment increases with EPL strictness regarding temporary contracts (albeit not significantly if Spain is excluded from the sample) as shown in Fig. 1*b*. One possible explanation of this odd result is that the EPL indicator of temporary jobs does not influence the share of temporary jobs at all, and that it has a positive estimated coefficient in the previous bivariate regression because it is positively correlated with the EPL permanent jobs indicator, which is the genuine determinant of that share. Indeed, in a regression of the percentage of temporary employment on both EPL indicators, only the one pertaining to the use of permanent contracts is found to be statistically significant.⁶ Hence, on the whole, the previous evidence suggests a strong positive correlation between the extent of temporary jobs and the EPL strictness regarding permanent contracts, whereas the EPL strictness of temporary jobs hardly plays any role.

2. The Papers in the Symposium

The rise in temporary jobs in much of western Europe during the 1990s can be seen, in part, as arising from deliberate policy. As shown above, there is evidence that, in countries with high EPL for permanent jobs, temporary jobs can provide labour market flexibility.

In the first paper in the symposium, Booth, Francesconi and Frank examine the benchmark case of Britain. Britain is a largely unregulated labour market, where firms have low EPL for both permanent and temporary jobs. There are few restrictions on the use of fixed term contracts. In this environment, what are the characteristics of temporary jobs? This paper uses data from the British Household Panel Survey, for the period 1991–7, to confirm some common but hitherto unsubstantiated beliefs about unregulated temporary jobs. Workers are less happy in these jobs, they receive less training and (after controlling for a wide range of explanatory variables) are paid less. Policies that create more temporary jobs are therefore likely to be creating bad jobs. What are the career prospects of temporary jobs? This paper finds that there is a scarring effect for men—men who begin their careers in temporary jobs continue to have income penalties long after they have moved into permanent jobs. Interestingly, this is not necessarily the case for women—women who begin in temporary jobs catch up to women who started their careers in permanent jobs. This makes the important point that temporary work may well have different impacts across gender.

In the second paper in our symposium, Blanchard and Landier model the partial (two tier) reform of employment protection that has occurred in some European countries characterised by high EPL, and where employment of workers on fixed term contracts has been encouraged instead of the alternative of lowering EPL for permanent jobs. They show that such a partial reform may have perverse effects: there may be higher turnover in fixed term contracts leading to higher

⁶ A regression of the proportion of temporary employment (*TEMP*) on a constant, EPL for permanent employees (*EPLP*) and EPL for temporary employees (*EPLT*) yields: $TEMP = 3.43 + 3.56EPLP + 0.04EPLT$ (with *t*-ratios of 2.60 and 0.05 for the estimated coefficients of *EPLP* and *EPLT*, respectively).

unemployment. Even if unemployment were to be reduced by such a policy, workers might be worse off through experiencing multiple spells of unemployment and fixed term contracts before finding regular employment. Evidence from French data from the Enquêtes Emploi for young workers over the period 1983-90 suggests that reforms have increased worker turnover, while worsening the welfare of young workers.

Both the British and French studies, therefore, cast doubt on the desirability of expansion of temporary jobs. A different viewpoint arises in the third paper of our symposium by Holmlund and Storrie that charts the rise in temporary work in Sweden over the 1990s. Most of the increase occurred during the severe recession of the early 1990s with very high levels of unemployment. Using Labour Force Survey data, they show that temporary and regular employment display different cyclical behaviour, as one would expect. Their analysis suggests that the rise cannot be explained by legislative changes, by changes in the composition of the labour force, or by shifts in the sectoral composition of employment. An important factor behind the rising prevalence of temporary work appears to be the severe recession that has made firms more prone to substitute temporary for 'permanent' contracts and workers more willing to accept short term contracts. The Swedish experience suggests, as may well be the case for other Nordic countries affected by the collapse of the USSR, that adverse macroeconomic shocks can trigger substantial increases in temporary work.⁷

The fourth paper in our symposium by Dolado, Garcia Serrano and Jimeno takes stock of the available evidence for Spain. This study investigates the consequences of a very segmented labour market (in which one third of employees are under very flexible employment contracts with low severance payments and two thirds are under permanent employment contracts with very high employment protection) on a wide variety of dimensions of the labour market. The aim is to draw useful lessons for other countries that might try to weaken employment protection through divisive two tier reforms. The authors also address the puzzle of why temporary employment in Spain remains so high to date, despite the countervailing labour market reforms of the 1990s and 2001. They find that those reforms have reduced the share of temporary jobs in the private sector by about 4 percentage points, but that such a reduction has been partially offset by an increase of the share in the public sector for reasons related to fiscal consolidation and to the implementation of active labour market policies. Hence, although the overall share of temporary work remains little changed, the policy implications may be different from those in the past, to the extent that many of the temporary jobs created by the public sector increase the 'employability' of workers with specific difficulties in the labour market.

⁷ The rise in temporary work in Sweden cannot be explained by leave replacements, but it is interesting that leave replacements account for 4-5% of the numbers of employees in Sweden, a proportion which has remained fairly stable during the 1990s.

3. Summary

Overall, the papers in this symposium suggest that the expansion of temporary jobs as a way of increasing labour market flexibility may be undesirable. In the absence of strong employment protection for permanent jobs, as in Britain, temporary jobs are from worker's perspective bad jobs, with possible long term career implications, in particular for men. Even where there is strong EPL for permanent jobs as in France the expansion of temporary jobs may be undesirable, leading to high turnover among younger workers. The Swedish study, investigating the causes of the rapid growth in temporary work over the 1990s, suggests that adverse macroeconomic shocks can trigger substantial increases in temporary work. Finally, the Spanish study shows that, once temporary jobs are entrenched in a dual labour market, later reforms to restrict their growth can be unsuccessful, indicating that attempts to reduce firing costs for permanent contracts have so far been insufficient.

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