1st Aix-Marseille School of Economics
-Banque de France
Labor market Conference

“Labor Markets: Institutions and Reforms”

Discussion
Session « Labour contracts »

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Why a debate on the single contract?

• A dual labor market
  – Two types of contracts associated to different firing costs
  – Few transitions from temporary to permanent contracts (12-13% in France, Portugal)
  – A majority of hirings in temporary contracts (50-75% in France)

• Bad economic outcomes
  – Large adjustment during recessions and countercyclical productivity
  – Lower productivity (Dolado et al 2011)
  – Increase inequalities

• A signe contract difficult to implement?
  – Many influential reports advocating for a single contract
  – Some recent economic reforms
How to rationalize temporary contract demand?

- Temporary contracts: probation period for firms to observe the productivity of the worker
- Permanent contracts: reduce turnover (less hiring and training costs); raise employees’ investment in the firm (specific skills)

Some determinants

- Heterogenous productivity (+)
- Ambiguous effect of short-term aggregate productivity
- Layoff costs
- Long term productivity
Bentolila, Dolado, Jimeno

- Great recession
  - Large increase of unemployment, productivity countercyclical
  - No adjustment of hours and wages to the shock

- Institutional framework of Spanish labor market?
  - 25% of temporary contracts, introduced in 1984
  - Wage indexation and large coverage
  - But
    - Conditions for the use of temporary contracts were restricted
    - Decrease in severance payments for permanent contracts
Bentolila, Dolado, Jimeno

• Reforms in Great Recession

  – More frequent during recessions
  – 2010-2011 reforms
    • Limit the number of temporary contracts
      – Extension of possible causes for fair dismissal
      – Increase of severance payments for temporary contracts
      – Maximum limit for the duration of temporary contracts
    • Hour reductions were facilitated
    • Active labor market policies
    • Opt out possibilities (but caveat)

  – Advocate for the introduction of a single open-ended contract
Characteristics of a single contract

• **Single open-ended contract**
  – Permanent contract with no ex-ante time-limit
  – End of temporary contracts

• **Severance payments increase with seniority**
  – Smooth rise in protection with tenure
  – Loss of specific human capital + psychological costs
  – Less power to the judge, reduce uncertainty for the firm
Why should we be in favor of the single contract?

• Reduce uncertainty and foster mobility
  – Suppress discontinuities in firing costs for firms
    • Possibility of minimal duration
  – Reduce complexities and legal uncertainties
    • In France, 26% of « labor » trials for individual unfair dismissal
    • No feeling of job security
    • Less power to the judge

• Firms have to pay for unemployment costs
  – Share of social costs of unemployment
  – No obligation for reconversion/reassignment
Suppress discontinuities in firing costs

Source: Cahuc and Kramarz (2004)
Why should we be in favor of the single contract?

• On the macro side,
  
  – Lower unemployment volatility
  
  – Lower level of unemployment if reduction in EPL
  
  – Costain et al. 2010 + Bentolila et al. 2011
Why should we be against the single contract?

• Legal obstacles

  – Deep modifications of labor codes
    • End of dismissals for economic reasons
    • No obligation of reassignment
    • Temporary contracts for maternity leaves, or other specific uses...

  – Find a « valid » reason for dismissal (ILO)

  – Still possibility to dispute firing for other reasons (discrimination...)
Why should we be against the single contract?

• Can the single contract help to make professional careers safer?
  
  – Single contracts with many very short contract durations?
    
    • Fragmentation of the labour market would survive
    
    • Longer probation period (Italy)?
  
  – Increase in training contracts or agency contracts?
  
  – Consequences on firm incentives to invest and promote training programs, skills….
    
    • Firms are not responsible any more for unemployment
    
    • Quantitative management of human ressources (labor cost / firing cost)
Social dialogue to reduce uncertainty?

• Reduction of uncertainty on the end of individual contract
  – Individual negotiation on the end of the contract
  – Example of « Ruptures conventionnelles » in France

• Collective bargaining on dismissals
  – At the firm or industry level
  – Adapt labor codes to decentralized « reality »
    • Anticipation of collective dismissals?
    • Less administered labor market
  – Collective agreements on mobility, training,...
How can we internalise the social cost of unemployment?

• Do we really need a single contract?
  – « Experience rating » to provide firms incentives
  – Specific social contribution proportional to firms’ wage bill
    but reduction of administrative costs in case of collective
    dismissals

• Invest in training programs and foster
  professional skill upgrading
  – Within the career rather than within the firm (Wasmer)
  – Promote safer career for employees and less legal
    uncertainty for employers
Promote reforms in wage bargaining

• Institutions of wage setting reforms (Jimeno et al)
  – Indexation of wages and real rigidity
    • National minimum wage
    • Industry wage agreements
  – Firm- or industry-level negotiations
    • Adjust wages to local and decentralized conditions
    • Link wages to productivity

• Labor market reforms and monetary policy?