

Study in Focus

Mitigating labour market dualism: Single open-ended labour contract and other instruments

BACKGROUND

In the European context, non-standard employment, and fixed-term contracts most notably, have emerged as a response to the deregulation 'at the margin' of the labour market, legalising and liberalising the use of temporary types of work over the last decades. Given the negative side-effects of labour market dualism between temporary and permanent employment, the debate about a more balanced regulatory model of European labour markets has a longer tradition in EU-level discourse and policy strategies (e.g. Flexicurity approach, European Pillar of Social Rights).



FOCUS OF THE STUDY

This [study on Mitigating labour market dualism](#) examines patterns, trends and implications of temporary employment. It explores labour market reforms aimed at combatting dualism at a conceptual level and in eight Member States (Germany, Netherlands, Slovenia, Poland, Spain, France, Portugal and Italy).

KEY FINDINGS

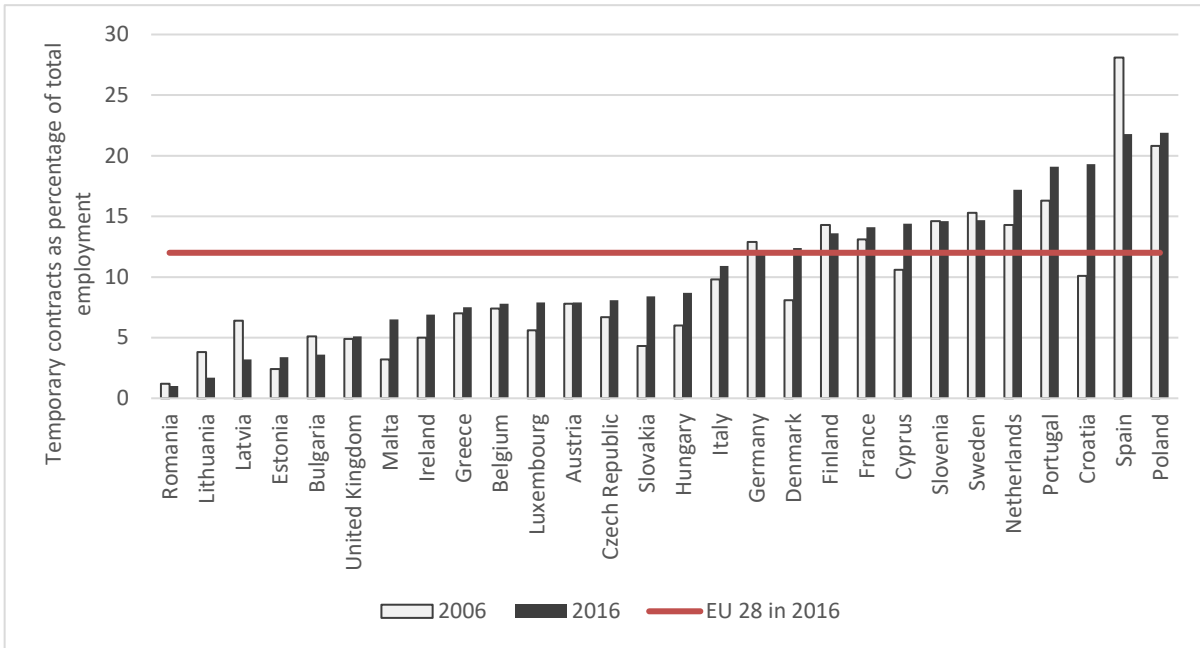
1. Patterns and trends in temporary employment

Temporary employment (defined here as fixed-term contracts and temporary agency working), **is an important feature of European labour markets** (>15 % of all workers in Poland, Spain, Croatia, Portugal and the Netherlands).

While the gender composition of temporary work is quite balanced, a disproportionately **high share of low-skilled, young people, migrants and workers in low- and medium skilled service sector occupations are disproportionately work on temporary contracts**. Thus, 23.7 % of those in elementary occupations across the EU28 are employed on a temporary basis, compared with 15.8 % of clerical, service and sales workers, 15.2 % of skilled agricultural workers, craft and trade workers, and machine operators and assemblers and 10.2 % of managers, professionals and technicians.



Figure 1: Temporary contracts in EU Member States



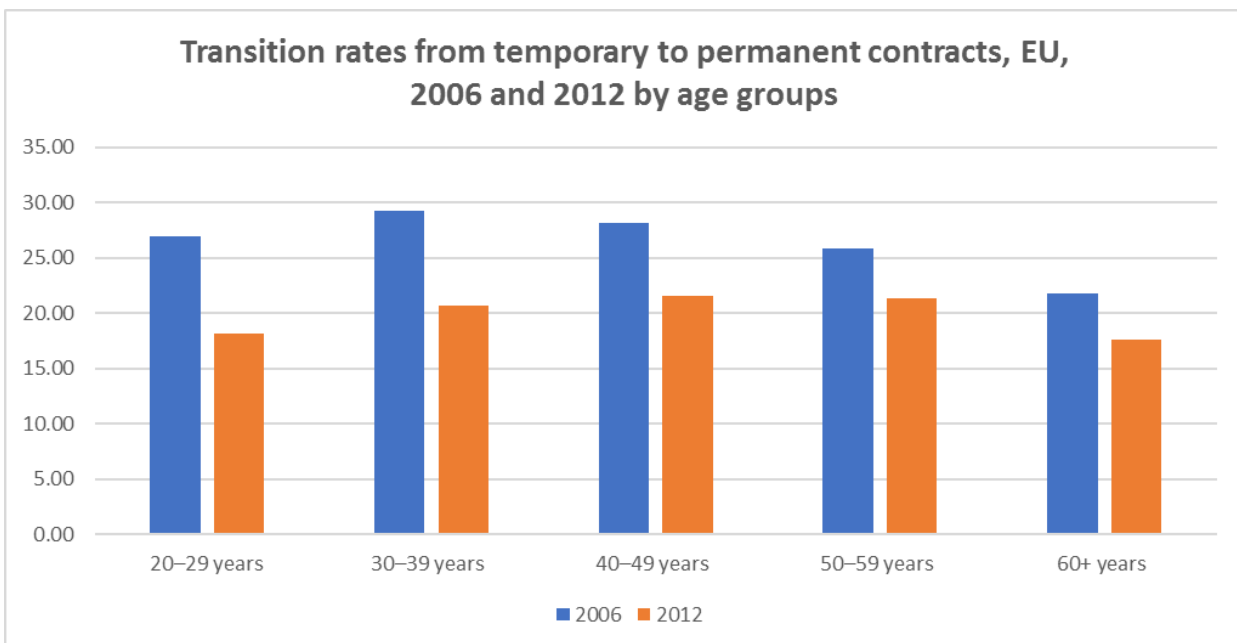
Source: Eurostat, [lfsi_pt_a]. Note : Temporary contracts as percentage of total employment.

2. Drivers and implications of temporary work: features of labour market dualism

Looking at the drivers of temporary work, this study finds that workers tend to take up temporary contracts when **no permanent job is available**. Only in a few countries with strong vocational training systems such as Austria, Germany and Denmark do educational reasons play a substantial role via fixed-term apprenticeship contracts

Survey data on **working conditions** for fixed-term workers show **lower satisfaction with job quality** compared to workers with permanent employment (lower perceived job stability, a higher low pay share, less worker representation, limited training and career prospects).

Figure 2: Transition rates by age group



Source: Eurofound 2015, based on EU-SILC

There is some evidence that **transition rates from temporary to permanent work are falling** and some countries show a relatively low transition rate (10 % in France, 12 % in Spain, 12.3 % in the Netherlands, and 12.6 % in Greece, against an EU average of 22.8 %). In some countries and sectors, average durations of fixed-term contracts are quite short (lasting at most 12 months), implying chains of fixed-term contracts. In a number of countries, the duration of many temporary contracts lies between one and three months only (e.g. BE, FR, HR, LT, LV). By age, transition rates are lowest in the 20-29 year age group (18.2 %) and the 60+ age group (17.6 %). Transition rates rise with educational level.

Further, the study finds that **institutions, in particular governments imposing labour market regulation, are main factors in shaping labour market dualism**. In a number of countries that have strongly segmented labour markets, **proposals to replace the dual system of permanent and fixed-term contracts by a single open-ended contract (SOEC) have been made**, especially in Spain, France and Italy. There are at least two versions of a SOEC: a uniform contract (implying the same dismissal protection for all workers, i.e. abolishing fixed-term contracts) and a differentiated SOEC (with continued differentiation of dismissal protection based on seniority).

3. Mitigating labour market dualism - Single Open-ended contract and other policy strategies

In theory, a SOEC could help to narrow the gap between temporary and permanent contracts. In a dual system, most redundancies affect employees on a fixed-term contract with low seniority; under a SOEC, dismissals will be more evenly spread over employees with varying degrees of seniority, since dismissal costs vary less with tenure. Under a SOEC, workers with short tenure will have a larger probability of staying in the same job for a longer period, whereas workers with longer tenure run a greater risk of being dismissed. The number of hirings will probably fluctuate more strongly over the business cycle. **The effects of a SOEC on the employment rate and the unemployment rate are uncertain, but probably small.** However, it is important to stress that **a SOEC does not exist yet in any country**. Moreover, the effects of a SOEC will vary depending on the specific type of SOEC used.

There are **alternative mechanisms** of protection against labour market dualism, such as active labour market policies and unemployment benefits. However, **little is known about the effectiveness of alternative measures to overcome the divide** between non-standard and permanent employment. Most alternative measures also have some downsides that have to be weighed against the advantages. For example, **measures to increase income security of non-standard workers**, such as easier access to social insurance, may act as an **unintended subsidy** to employers who hire workers on non-standard contracts.

A dedicated **EU Directive on fixed-term contracts** (1999/70/EC) does not fully aim to reverse the trend of deregulation and there are a number of loopholes in its formulation, according to research.

This study also presents lessons from eight **case studies** of countries with strong employment protection and high shares of temporary employment (DE, NL, SI, PL, ES, FR, PT, IT). Typically, these exhibit low or moderate transition rates to permanent jobs unless temporary contracts are used for educational purposes. Over the past 10 years, there has been in all these countries **significant and unprecedented reform activity** to reduce the regulatory gap between contract types, in particular by reducing employment protection (e.g. IT, ES, PT). Reforms have eased the justification for dismissals, simplified dismissal procedures and lowered severance pay. However, **none have introduced a unified SOEC**.

Labour market reforms also include **financial incentives: strong hiring subsidies** (e.g. in Slovenia) **might help transitions to permanent contracts**, but they are expensive and difficult to sustain fiscally. A number of countries have introduced **tighter regulation of fixed-term work** (e.g. limits on the total duration or number of fixed-term contracts in the Netherlands and Poland) or **strengthened active labour market policies** (ALMP) in order to increase sustainability of activation (e.g. in France). However, ALMP play a minor role in countering segmentation.

In some cases **unemployment benefit coverage** has been slightly extended. Despite all these reform efforts, fixed-term contracts are still used widely in the most dualised labour markets, due to long-standing hiring routines.

Overall, it would appear that **flexibility is increasing on the whole**, as dismissal protection for permanent contracts is lowered and the incidence of temporary contracts is increasing, while employment security is arguably being eroded. It would seem that the **re-regulation of temporary work appears to be the main way in which dualism is being mitigated**.

Based on the reviewed evidence, it is **not (yet) possible to identify a best-practice model when it comes to lowering labour market dualism**. Policy experimentation and its systematic evaluation will need to continue. The debate on a more balanced regulatory model of European labour markets has a long tradition in EU-level discourse and policy strategies and it would appear that, based on this study, the search for best practice will continue in the coming years.

4. Policy recommendations

Re-regulation of temporary contracts to make temporary employment more expensive. Introducing unemployment insurance experience rating imposes higher payroll tax rates on firms that have dismissed more workers in the past. As result, the costs of flexible HR practices can no longer be externalised. Policies combining this with an expansion of unemployment benefit coverage and generosity would take the idea of flexicurity more seriously.

Communicating and enforcing existing rules properly. In the absence of industrial relations traditions that fulfil this role, this would require **investment in labour inspectorates**. Given the budgetary situation of some of the countries studied here, this is an area where the European Union could take a strong role. It is also advisable to **communicate newly-established dismissal protection rules** more clearly and consistently to market actors so that the real costs of dismissals can be more in line with perceived costs of dismissals.

Building human capital-oriented ALMPs. Even if it is **not easy for public employment services to influence upward transitions**, targeted training of unemployed people according to labour market needs may improve employment trajectories in the longer run.

Governments that are determined to lower segmentation should **start with hiring practices in the public sector** as there is no justification for highly precarious chains of temporary contracts.

Further research is necessary to examine in more depth the drivers behind labour market dualism in a wider range of EU Member States and to analyse the effectiveness of a range of policy responses.

Disclaimer and copyright. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2018.

© Image on page 1 used under licence from Shutterstock.com

Administrator responsible: Susanne KRAATZ

Editorial assistant: Irene VERNACOTOLA

Contact: Poldep-Economy-Science@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

IP/A/EMPL/2018-21

Print ISBN 978-92-846-4067-6 | doi: 10.2861/88291 | QA-03-18-389-EN-C

PDF ISBN 978-92-846-4066-9 | doi: 10.2861/989989 | QA-03-18-389-EN-N