

**1<sup>st</sup> 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 single contract difficult to implement?
  - Many influential reports advocating for a single contract
  - Some recent economic reforms

# Lepage-Saucier, Schleich, Wasmer

- 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

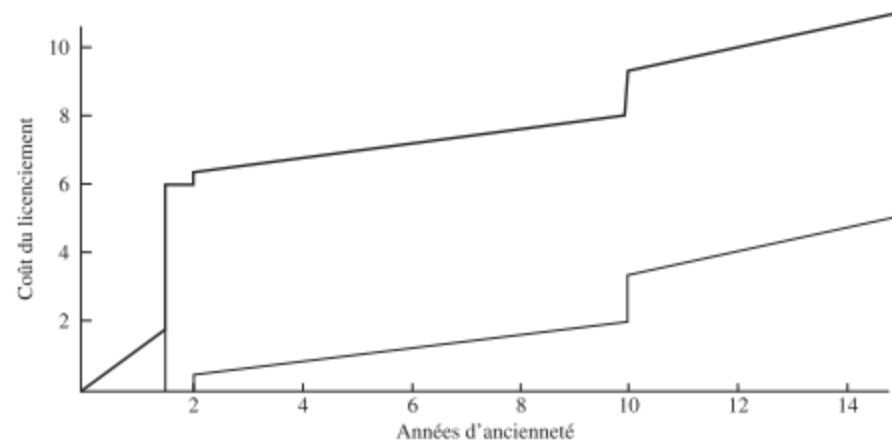
- Single open-ended contract
  - Permanent contract with no ex-ante time-limit
  - End of temporary contracts
- Severance payments increase with seniority
  - Smooth rise in protection with tenure
  - Loss of specific human capital + psychological costs
  - Less power to the judge, reduce uncertainty for the firm

# Why should we be in favor of the single contract?

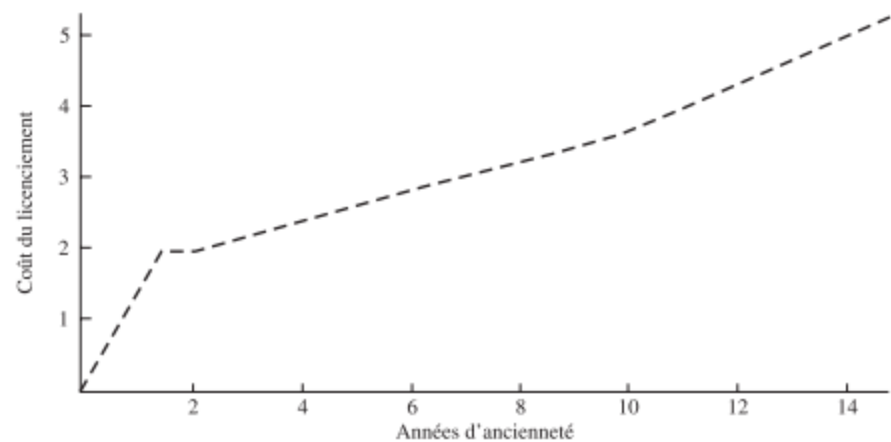
- Reduce uncertainty and foster mobility
  - Suppress discontinuities in firing costs for firms
    - Possibility of minimal duration
  - Reduce complexities and legal uncertainties
    - In France, 26% of « labor » trials for individual unfair dismissal
    - No feeling of job security
    - Less power to the judge
- Firms have to pay for unemployment costs
  - Share of social costs of unemployment
  - No obligation for reconversion/reassignment

# Supress discontinuities in firing costs

Graphique 37 : **coût de licenciement individuel exprimé en mois de salaire en fonction de l'ancienneté dans l'entreprise**



Graphique 38 : **coût de licenciement individuel exprimé en mois de salaire en fonction de l'ancienneté dans l'entreprise dans le cadre du nouveau contrat unique**





# 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 resources (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?