

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

“Labor Markets: Institutions and Reforms”

Discussion
Session « Labour contracts »

Erwan Gautier (UBO – Banque de France)

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

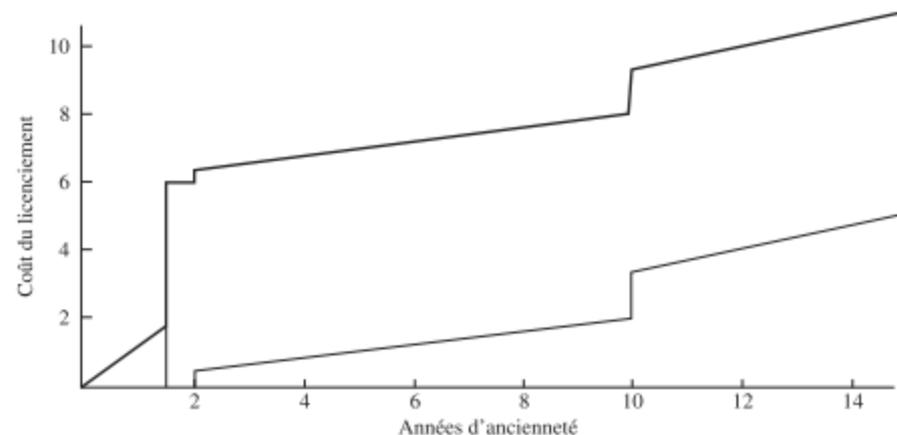
- Single open-ended contract
 - Permanent contract with no ex-ante time-limit
 - End of temporary contracts
- Severance payments increase with seniority
 - Smooth rise in protection with tenure
 - Loss of specific human capital + psychological costs
 - Less power to the judge, reduce uncertainty for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

Why should we be in favor of the single contract?

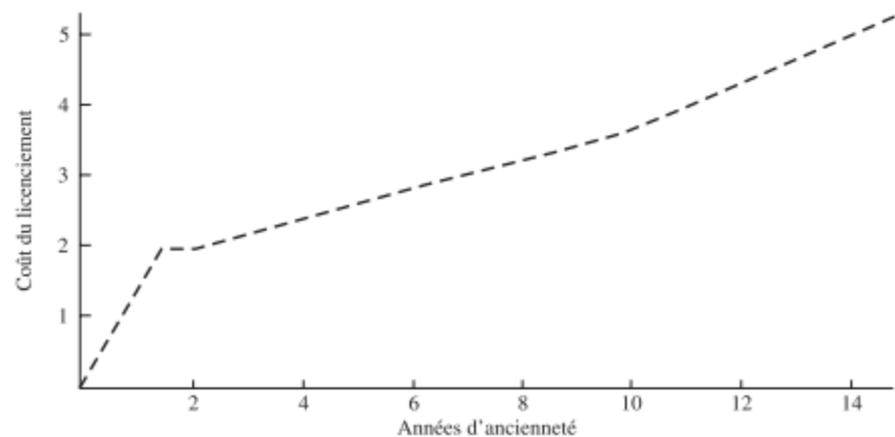
- Reduce uncertainty and foster mobility
 - Suppress discontinuities in firing costs for firms
 - Possibility of minimal duration
 - Reduce complexities and legal uncertainties
 - In France, 26% of « labor » trials for individual unfair dismissal
 - No feeling of job security
 - Less power to the judge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