

# Promoting temporary contracts fails to have the desired effect of increasing employment

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Josu Ferreiro. Photo: Tere Ormazabal. UPV/EHU.

A study by the UPV/EHU and University of Cambridge explores the actual effect of the labour reforms applied between 1988 and 2012 in countries throughout Europe. Far from meeting the aim of encouraging recruitment, these reforms were found to have caused the rate of

temporary employment to increase and indefinite recruitment to fall. The current economic crisis of a health origin could prompt states to put forward models designed to stabilise employment more.

With the aim of making the [labour market](#) more flexible, between 1990 and 2010 most of the economies, the European ones in particular, adopted various measures designed to reform their labour markets, which involved making it cheaper to dismiss permanent employees and encouraging the use of temporary contracts. "These reforms were based on the belief that the serious unemployment problems facing these economies were due to the existence of various inflexibilities in the labour market which were hampering a rapid adjustment of these markets when responding to economic shocks," explained Josu Ferreiro, lecturer in the Department of Applied Economics V of the UPV/EHU's Faculty of Economics and Business.

Ferreiro, together with his department colleague Carmen Gómez, and Philip Arestis, a University of Cambridge lecturer, tackled the study of the effect these measures were having on the labour markets of eleven European countries over a 25-year period, from 1988 to 2012. "The cut in dismissal costs was more than half with respect to that stipulated by legislation in the 1980s, both in terms of days worked per year that are paid and in terms of the cut-off figure of monthly salaries that are paid," said the researcher.

Studies had already begun to be published suggesting that these measures had failed to achieve the desired effect and that there was no clear demonstration that more jobs had been created. "We decided to analyse the repercussions that this reduced [employment protection](#) was having not only on total [employment](#) but also on permanent employment and temporary employment. We studied each of these aspects separately," said Ferreiro.

The results of the analysis were clear, "clearer than what we had expected to find," said the researcher. And the fact is that they found that "the changes introduced to reduce employment protection, in other words, by making it cheaper to dismiss people and by simultaneously promoting temporary contracts, have had no effect on the total employment rate, because what has happened is that temporary employment has increased a lot whereas indefinite employment has fallen hugely. The evolution in employment depends on [economic growth](#) alone, and only a higher rate of economic growth generates an increase in employment."

The clearest effect that they in fact found on the job market as a result of the labour reforms was "the restructuring of employment that has taken place. A segmentation has taken place which means we can talk about two categories of workers: those who are on fixed or permanent contracts, and those on temporary contracts. They almost operate as if they were different job markets where the possibility of people on temporary contracts securing an indefinite [contract](#) is very remote. What is more, the conditions of work of temporary contracts are more precarious, firstly because the contracts are shorter and secondly because they pay less," he said.

## **Overreaction of layoffs during the Covid-19 crisis**

Ferreiro is in no doubt that companies have been the major beneficiaries of the reforms: "They find a workforce that is much more manageable, more flexible and also cheaper." So much so that right now the rate of temporary employment has reached unprecedented levels that this economist regards as "excessive." He recalls that when the economy began to revive after the [economic crisis](#), "there was an upturn in employment once again, but the employment created was of a temporary nature," he said.

However, the high rate of temporary work means that the employment that is created is highly volatile: a lot of jobs are destroyed the moment economic activity slows down or falls. "And that is what is happening in the crisis we are going through right now: the effect on employment may be much greater than the actual effect on economic activity due to the great flexibility of the labour [market](#). Just as the health system is not equipped to address a huge increase in the number of patients all at once, neither are our economic systems equipped to absorb the fact that all of a sudden, within a four-month period, 20-30% of people lose their jobs," he reflected.

Ferreiro regards this situation as an opportunity for States to change legislation on employment protection: "Within the short to medium term, countries will probably start to rethink this problem of employment legislation more seriously and to consider the fact that these measures implemented in the past have not had the desired effects and that we have to go for models in which an attempt is made to stabilise employment much more."

**More information:** Philip Arestis et al, Quality of employment and employment protection. Effects of employment protection on temporary and permanent employment, *Structural Change and Economic Dynamics* (2020). [DOI: 10.1016/j.strueco.2020.02.008](https://doi.org/10.1016/j.strueco.2020.02.008)

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