Chapter 4

Non-regular employment, job security and the labour market divide

This chapter provides new evidence on the incidence of non-regular employment, defined as all types of employment that do not benefit from the same degree of protection against contract termination as permanent employees, and its impact on labour market duality and inequalities in job security across workers. In most OECD countries, regulations concerning termination of non-regular contracts are typically less costly for employers and less protective for workers than those applying to the dismissal of permanent employees. These differences in legislation are reflected in both actual and perceived job security. Moreover, there are growing concerns that large differences in regulations across contracts tend to concentrate any required labour market adjustments on non-regular workers, thereby increasing labour market segmentation. Policy options to reduce this labour market divide include making the use of temporary contracts more difficult and costly, relaxing regulations on dismissal of permanent workers or fostering convergence of termination costs across contracts, including by introducing a single or unified contract. Each of these options involves overcoming implementation difficulties and requires complementary reforms to be effective.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Key findings

Non-regular employment – that is all forms of employment that do not benefit from the same degree of protection against contract termination as permanent employees – can provide a useful source of flexibility for firms to adjust their workforce needs in the light of changing economic circumstances. They can also be a voluntary choice for certain workers, who might prefer the flexibility associated with employment relationships characterised by softer commitments. However, excessive use of non-regular contracts can have an adverse impact on both equity and efficiency. Workers on these contracts often face a higher degree of job insecurity than employees on regular contracts. And firms may invest less in non-regular workers, which in turn may depress productivity growth. Providing flexibility to firms through a range of non-regular contracts, while minimising equity and efficiency costs arising from the use of these contracts is therefore a key challenge for policy-makers. Over the two decades prior to the global financial crisis, many countries sought to promote flexibility in the labour market largely by easing regulations on non-regular contracts, while leaving largely un-touched relatively stricter regulations on regular contracts. This led to an expansion of non-regular contracts in a number of OECD countries and greater labour market segmentation as characterised by large disparities in job quality across segments (e.g. contracts), as well as low rates of transition of workers from one segment to another.

This chapter provides new evidence on the scope and features of labour market segmentation as determined by disparities of job security across contract types. It considers all forms of contracts that do not benefit from the same degree of protection against contract termination as regular employees with an open-ended contract. These include fixed-term contracts, temporary-work-agency employment, casual contracts and contracts for services regulated by commercial law but entailing conditions of work that are similar to those of employees. The key findings of the chapter are as follows:

- Temporary employment, the dominant form of non-regular employment, is widely used in a number of OECD countries, even if permanent employment remains the most prevalent form of employment contract for wage and salary employees. Nevertheless, other forms of non-regular employment have increased, making it more difficult to characterise labour market duality. These other forms of non-regular employment include contracts for services regulated by commercial law, which tend to be used as alternative instruments of flexibility in particular in the context of restrictive employment protection for regular open-ended contracts. The multiplicity of contracts makes the profiles of non-regular workers difficult to define as a homogeneous group, but the portrait that emerges from available data suggests that non-regular jobs – and particularly fixed-term jobs – are still disproportionately held by younger, less-educated and lower-skilled workers, and are not a voluntary choice for most employees.

- Non-regular workers are generally less protected by employment termination rules than regular workers. Overall, two important aspects stand out from the comparative analysis of hiring and firing rules across countries. First, the existence in many OECD countries of restrictions on the number of renewals or successive temporary contracts under which a worker can be employed by the same firm without interruption appears to increase job insecurity as perceived by those temporary workers who have limited perspectives on conversion. Second, there are some cross-country differences in termination rules between regular and non-regular contracts. In a few countries, termination of fixed-term contracts before the end date is more difficult and costly than terminating contracts with indefinite duration, but in the majority of countries there are no significant differences. By contrast, in only a few countries are there any costs or restrictions in the case of termination at the end date, and when they are in place, they are usually much less burdensome than for dismissing employees with permanent contracts.
- The large statutory disparities in termination costs by type of contract trigger differences in job security and generate persistent divides between non-regular and regular workers. The comparison across contract types of different measures of subjective job security suggests that non-regular workers, notably fixed-term and temporary-work-agency workers, feel much more insecure than permanent employees as regard to the risk of job loss and the probability of re-employment after job loss – although some caution must be exerted in the comparison of subjective perceptions across countries and individuals. Moreover, there is no evidence that non-regular workers are compensated for their lower job security through higher wages. On the contrary, the majority of them experience worse conditions in terms of both job security and wages, even though the situation differs across countries and contracts.
- Non-regular contracts can be a stepping stone into stable employment for a number of workers, notably for young people, and a voluntary choice for a fraction of them. But the low transition rates from temporary to permanent jobs suggest that those inequalities tend to persist over time. Evidence for European countries shows that less than 50% of the workers that were on temporary contracts in a given year were employed with full time permanent contracts three years later. One reason behind these long-lasting effects is the reduced probability of receiving employer-sponsored training when in temporary positions: evidence based on the OECD Adult Skills Survey shows that on average being on temporary contracts reduces the probability of receiving employer-sponsored training by 14%.
- Policy makers have become increasingly aware of the risks that asymmetric liberalisation of non-regular contracts, while leaving in place fairly rigid regulations on regular ones, may have on increasing labour market segmentation and lowering overall economic performance. Therefore, various policy options have been recently explored in OECD countries to reduce the labour market divide. One strategy consists in limiting the use of fixed-term contracts by restricting their use and making them more costly. However, enforcement of such measures might prove particularly difficult. In addition, increasing restrictions on hiring regulations might induce perverse effects on temporary workers by reducing the duration of their employment spells and their re-employment prospects after job loss.

- Another approach adopted in a number of OECD countries, in particular during the recent economic crisis, has been to lessen dismissal restrictions for open-ended contracts. These reforms tend to be effective in reducing labour market dualism by increasing the incentive of employers to hire permanent workers. At the same time, however, these reforms may also involve greater dismissals of permanent workers and some of them may experience significant income losses. Therefore, these reforms should be coupled with the provision of adequate unemployment benefits, albeit made conditional on strictly enforced job-search requirements and integrated into well-designed activation packages.
- Another way to alleviate labour market dualism is to foster convergence towards a common level of termination costs between the different types of contracts by making regulation as homogeneous as possible across contractual relationships. In principle, the level of termination costs could be chosen in a way that matches each country's social and political preferences for worker protection, thus not necessarily implying convergence towards low degrees of employment protection. Full convergence could be achieved through the introduction of either a *single contract* – with termination costs increasing with job tenure and applied to all workers, while suppressing or limiting all fixed-term contracts – or a *unified contract* – with the same termination costs applying to all contracts, independently of whether they are permanent or temporary. However, their implementation would require in many countries addressing a number of difficult and contentious issues – such as extending the definition of fair dismissal and limiting the judicial review of the dismissal decision to discrimination, prohibited grounds and false reasons. Moreover, suppressing all fixed-term contracts would run the risk of reducing hiring and fostering the use of contracts for individual labour services regulated by commercial law – that is an even less protected form of employment.
- Given the difficulty of their implementation, it is perhaps not surprising that there are no country examples of the use of a *single contract* and only few examples in the case of a *unified contract*. Ireland, New Zealand and the United Kingdom have implemented a significant convergence of termination costs across contracts, while maintaining various forms of temporary contracts to provide firms with the necessary flexibility, especially to deal with truly temporary activities. However, these countries have all low degrees of employment protection and are characterised by limited judicial review of contract terminations.

Introduction

The surge in the use of temporary contracts in a number of OECD countries over the last twenty-five years has been well documented and analysed in cross-country and national studies (for example, OECD, 2002, 2010, 2013a; ILO, 2012). Temporary jobs provide a useful buffer of adjustment and flexibility for firms in the case of uncertain or fixed-term activity. In certain cases, they could be a genuine, voluntary choice of workers or might help those with limited labour market attachment and/or limited work experience getting a foothold in the labour market. However, employees with temporary contracts are also exposed to reduced protection in case of termination of the employment relationship, and their jobs tend to be of lower quality, with reduced access to fringe benefits, often lower pay and prospects of upward mobility, particularly if the perspectives of transition towards a regular job are limited (see Chapter 3).

While technological and organisational change is the main factor behind the increasing spread of temporary contracts, their expansion has also been driven in many OECD countries by partial labour market reforms during the 1990s, which facilitated the hiring on temporary contracts while maintaining stringent restrictions on regular contracts (see, for example, OECD, 2013a). In the face of a rapidly changing economic environment, firms have taken advantage of differences in termination costs between temporary and permanent jobs to reduce the constraints on their operation imposed by employment protection provisions. In countries with strict regulations on dismissal of regular workers, the burden of adjustment to shocks has therefore been shifted to those on fixed-term contracts (often youth and other workers with little work experience or fewer skills), leading to dual (or segmented) labour markets, where outsiders tend to move from one temporary contract to another while insiders enjoy high protection and greater job stability. Moreover, at a macroeconomic level, dual labour markets induce also large adjustments in employment levels during recessions, increasing the volatility of labour markets and public budgets (e.g. Cahuc and Zylberberg, 2008; OECD, 2012). The empirical evidence also suggests that countries that implemented partial reforms of employment protection legislation, whereby regulations on temporary contracts were weakened while maintaining stringent restrictions on regular contracts, have indeed experienced slower productivity growth (Boeri and Garibaldi, 2007; Bassanini et al., 2009; Dolado et al., 2012).

Even though the roots of labour market segmentation are complex and regulation is only partially responsible for its evolution, policy-makers are increasingly aware of the risks for efficiency and social cohesion of relying solely on temporary contracts for labour market adjustments. However, the increasing complexity of the institutional setting due to the multiplicity of contractual forms of employment calls for a broader and in depth analysis of all forms of dependent employment that are alternative to regular contracts.

This chapter provides an update of the main trends and features of temporary employment (see for example OECD, 2002, for previous OECD work on this topic). However, with respect to previous OECD studies, it analyses more broadly the surge in the use of all *non-regular* forms of employment. In order to better characterise labour market duality, this chapter goes beyond the traditional definition of temporary employment, as used in labour force statistics, to capture all forms of dependent employment that do not benefit from the same degree of protection against contract termination as regular employees with an open-ended contract. It also sheds more light on the costs of labour market segmentation by investigating the extent to which statutory differences in the employment termination process result in job insecurity and generate *persistent* divides between non-regular and regular workers in terms of working conditions. Of particular relevance for policy makers, the chapter discusses whether having a non-regular job facilitates or hinders labour market prospects. Finally, the chapter also discusses various policy proposals to alleviate labour market duality in the context of strict regulation on regular contracts, including the introduction of a single or unified labour contract.

The chapter is organised as follows: Section 1 defines the concept of non-regular employment, provides evidence on the size of the phenomenon and the characteristics of the workers holding these contracts. Section 2 presents and discusses differences in employment protection legislation across contract types, drawing on recently collected information. Section 3 considers how these disparities are reflected in patterns of job security and discusses the extent to which non-regular employment is a trap or a stepping stones into regular jobs. Finally, Section 4 discusses available policy options and concludes.

1. Scope and characterisation of non-regular employment

How important are non-regular employment contracts in modern OECD economies? This section provides an overview of the incidence of non-regular contracts by distinguishing between employment contracts and contracts for services (see Box 4.1).[1]

Box 4.1. **Defining non-regular employment**

In this chapter, **non-regular employment** is defined to cover all types of employment that do not benefit from standard statutory provisions in term of employment protection. Thus, in a sense, non-regular work is defined by what it is not: dependent employment with a contract of indefinite duration (open ended contract), or what are considered as "regular" forms of employment.[a] The chapter breaks down non-regular employment into three categories: i) temporary employment; and ii) casual employment and iii) dependent self-employed workers (DSEWs). Other forms of self-employment, which do not imply a relationship of subordination with an employer (see below), are out of the scope of this chapter.

Temporary employment takes different forms across countries, depending on the contractual forms available to employers and workers in the national legislation. It is usually understood as dependent employment of limited duration and defined as such by labour force statistics even if it may include certain forms of open-ended contracts provided by temporary work agencies or through on-call contracts. In line with OECD definitions, this chapter also refers to the notion of temporary employment to typically capture fixed-term contracts and temporary work agency (TWA hereafter) employment. **TWA employment** is defined here as the employment of workers with a contract under which the employer (i.e. the agency), within the framework of its business or professional practice, places the employee at the disposal of a third party (i.e. the user firm) in order to perform work (i.e. the assignment) under supervision and direction of that user firm by virtue of an agreement for the provision of services between the user firm and the agency. By contrast, a **fixed-term contract** is defined here as an employment relationship that is deemed to end at a pre-specified end date, or subject to a pre-specified condition (such as the end of a project), if the contract is not renewed. It includes standard fixed-term contracts (that is contracts with a precisely defined end date), seasonal work, on-call contracts of limited duration, project contracts, training contracts and TWA contracts between the worker and the agency if of limited duration.

In terms of available statistics, while the definitions of temporary employment are reasonably comparable across EU countries (Eurostat), this is not the case for other countries. For instance in Korea, workers in temporary jobs include fixed-term jobs of a limited duration, which is close to the so-called contingent workers, as well as TWA, individual contract workers, at-home workers, on-call workers, etc. In the case of Australia, a significant number of employees are employed under a **casual contract**, which implies an employment relationship on an hourly or daily basis and is not counted in the national labour force survey as temporary employment.[b]

Finally, **dependent self-employed workers** (DSEW) are own-account self-employed – i.e. independent contractors without employees who either autonomously produce and sell goods or engage with their clients in contracts for services, regulated by commercial law – whose conditions of work are nonetheless similar to those of employees, in the sense that they work mainly or exclusively for a specific client-firm – hereafter called employers for simplicity – with limited autonomy and often closely integrated into its organisational structure. Even though their degree of subordination is similar to that of an employee, they are usually not protected by employment protection rules because these rules do not apply to commercial contracts. In addition, they typically have the same fiscal and social protection regimes as for the other self-employed, which is typically less burdensome for their employers. As a consequence, this type of contracts represents another flexible and often low-cost alternative to regular, open-ended employment contracts.

a) For the purposes of this chapter, the terms *open-ended*, *permanent* and *regular employment* are used in an interchangeable way. The term *employee* is used to designate all workers who have, from a legal viewpoint, an employment relationship with their employer, while the term worker includes both employees and the dependent self-employed who are not strictly speaking employees.

b) In this sense a casual contract shares many similarities with certain types of open-ended on-call contracts. For example, in the United Kingdom zero-hours on-call contracts are possible in which the worker remains available for work but the employer does not guarantee any minimum amount of work in a given month. Casual employment is also important in New Zealand where it amounted to 4% of employment in the first quarter of 2008 according to the Survey of Working Life.

The incidence of non-regular employment

Fixed-term contracts and TWA employment

While permanent contracts remain the prevalent form of dependent employment in OECD countries, the use of the different types of contracts varies substantially across countries, reflecting differences in labour legislation, practices and the composition of the economy by sector: on average for 2011-12, the share of fixed-term contracts was above 15% in nine OECD countries, rising to a quarter of all employees or above in Chile, Poland, Spain, while in it was at 6% or below in Australia, Estonia, Latvia, Lithuania and the United Kingdom (Table 4.1). There are also considerable differences across countries in the incidence of TWA employment: forbidden in Turkey, it accounts for about 2-3% of all employees in Austria, Belgium, France, Germany, Latvia, the Netherlands, Portugal, the Slovak Republic, Spain and the United States, rising to 5.3% in Slovenia. In at least eight European countries, open-ended contracts between the agency and the worker were the dominant contractual form of TWA employment (for example in Austria, Germany and the Slovak Republic), while in others it was fixed-term contracts (e.g. in France, the Netherlands and Slovenia). Overall, fixed-term contracts are the prevalent forms of non-regular employment contracts in the OECD countries, with the exception of Australia where casual workers represented about 19% of all employees in 2012 (see Box 4.2).[2]

The distribution of employees across contracts remained rather stable for most OECD countries, during the Great Recession and subsequent recovery, with the notable exceptions of Spain and Ireland (for further details, see OECD, 2014b). The share of fixed-term contracts went down in Spain from 32.9% at the onset of the crisis to 24.5% on average for 2011-12 while it rose in Ireland from 7% to 10%. The significant decrease of the share of fixed-term contracts during the crisis in Spain was due to the extremely high rate of job destruction among workers on temporary contracts together with a deceleration of the rate of temporary job creation in a strongly segmented labour market (OECD, 2014c). In Ireland, the increase of the share of fixed-term contracts was rather driven by changes in the composition of hiring (the share of fixed-term contracts among new hires rose from 26.7% in 2006-07 to 48.4% in 2011-12). More generally, Figure 4.1 shows that fixed-term contracts have been increasingly used for new hires between the two periods in almost all countries despite large initial differences in their share of all contracts for new hires (e.g. from 23.1% in the United Kingdom to 75% and higher on average for 2011-12 in Poland,[3] Portugal, Slovenia, Spain and Sweden).

The distribution by contract duration varies significantly across countries depending on several factors such as the importance of a particular type of fixed-term contracts (for instance apprenticeship contracts in Germany, Austria and Switzerland which tend to be of longer duration, as reflected by the higher share of fixed-term contracts over one year in these countries). No specific patterns emerge however between the incidence of fixed-term contracts (extensive margin) and the share of short-duration contracts (intensive margin).[4] For instance while Spain, Poland and Portugal have all high shares of fixed-terms contracts, the proportion of short-term contracts differs significantly between the three countries: contracts with a duration of less than three months were the most frequent in Spain (57.6% on average in 2011-12), while the bulk of fixed-term contracts in Portugal had a duration between three months and one year (68.3% over the same period); in Poland, the share of contracts of between three months and one year was equally important as the share of those over one year at about 40% (Figure 4.2). Finally, the crisis does not seem to

Table 4.1. **Permanent and fixed-term contracts, of which with a temporary work agency**

Percentage of all employees, average 2011-12

	Permanent			Fixed-term			Temporary work agency
	All permanent contracts	Not with a temporary work agency	With a temporary work agency	All fixed-term contracts	Not with a temporary work agency	With a temporary work agency	
Australia	94.1	..	..	5.9	..	..	..
Austria	90.6	88.6	2.0	9.4	9.2	0.3	2.2
Belgium	91.5	91.5	0.0	8.5	6.7	1.8	1.8
Canada	86.5	..	..	13.5	..	..	..
Chile	69.5	..	..	30.5	..	..	..
Czech Republic	91.9	90.7	1.2	8.1	7.9	0.2	1.4
Denmark	91.3	90.5	0.8	8.7	8.4	0.3	1.1
Estonia	96.0	95.8	0.2	4.0	3.9	0.1	0.2
Finland	84.4	83.9	0.5	15.6	14.9	0.7	1.1
France	84.9	84.9	0.0	15.1	12.8	2.3	2.3
Germany	85.6	83.9	1.8	14.4	13.1	1.2	2.8
Greece	89.2	89.0	0.3	10.8	10.7	0.1	0.4
Hungary	90.8	90.2	0.7	9.2	8.8	0.4	1.0
Iceland	87.2	87.2	0.0	12.8	12.8	0.0	0.0
Ireland	89.8	89.3	0.6	10.2	9.8	0.4	0.9
Italy	86.4	86.4	0.1	13.6	13.0	0.6	0.6
Japan	87.0	..	..	13.0	..	..	1.7
Korea	77.9	77.9	0.0	22.1	21.0	1.1	1.1
Luxembourg	92.7	91.8	0.9	7.4	6.7	0.6	1.5
Netherlands	81.2	80.8	0.5	18.8	16.3	2.5	2.9
Norway	91.8	91.7	0.1	8.2	8.1	0.1	0.2
Poland	73.3	73.3	0.0	26.7	26.2	0.5	0.5
Portugal	78.6	78.0	0.6	21.5	20.1	1.4	1.9
Slovak Republic	93.4	91.9	1.5	6.6	6.1	0.5	2.1
Slovenia	82.5	81.9	0.7	17.5	12.8	4.6	5.3
Spain	75.5	74.0	1.5	24.5	23.4	1.2	2.7
Sweden	83.8	83.1	0.7	16.2	15.6	0.5	1.3
Switzerland	87.1	86.6	0.5	12.9	12.5	0.4	0.9
Turkey	87.9	87.9	0.0	12.1	12.1	0.0	0.0
United Kingdom	93.9	..	..	6.1	..	..	..
United States	..	..	..	..	..	..	1.8
Latvia	94.3	93.0	1.3	5.7	4.9	0.8	2.1
Lithuania	97.3	96.7	0.6	2.7	2.6	0.1	0.7

Note: For the United States, data refers to the share of temporary help services workers in total non-farm employees.
.. Not available.

Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS), Korean Additional Survey on Economically Active Population (March 2012), Japanese Labour Force Statistics, US Current Employment Statistics and OECD (2013), "Labour Market Statistics. Employment by permanency of the job: incidence", *OECD Employment and Labour Market Statistics* (database), *http://dx.doi.org/10.1787/data-00297-en*.

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have particularly changed the distribution of fixed-term employees by contract duration, even if a general shortening of the average contract duration can be observed. In Finland and the Baltic States, the share of contracts over one year dropped dramatically, often by one half.[5]

The diversity in the incidence of temporary jobs across countries may also partly reflect characteristics and preferences of the workforce. For instance, some individuals may prefer more flexible working patterns for a number of reasons, e.g. temporary jobs may involve less commitment to the employer or a better balance with other activities (e.g. education, see Section 3 below). The distribution of fixed-term contracts by reason

Box 4.2. **Casual employment* in Australia**

In Australia, almost a fifth of employees are employed on a casual contract with less protection against dismissal than regular workers or those with fixed-term contracts. Casual employees accounted for 19% of employees in 2012, and made up a much larger share of employment in some industries, notably hospitality (64%), agriculture, forestry and fishing (43%) and retail trade (38%). Around 55% of casual employees are women, and most casuals are employed in relatively low-skilled service occupations (ABS, 2013).

Casual employees can be dismissed without notice or severance pay, and generally have no legal right to regular or ongoing employment. They can also have their hours varied from week to week or day to day. In effect, casual employment is employment on an hourly or daily basis, although many casual employees work the same hours every week and may have long tenure in their jobs. Despite having no right to notice of termination, casual employees can make claims for unfair dismissal in the same way as regular workers. However, a period of service as a casual employee does not count towards the qualifying minimum employment period unless the casual worker was employed on a regular and systematic basis and had a reasonable expectation of continuing employment on that basis.

In some industries, including construction, hospitality and some manufacturing sectors, employers must convert casual contracts to part-time or full-time contracts upon request if the employee has worked for a certain period of time and fulfilled criteria such as a minimum number of hours worked per week over the period of engagement. Typically, if a casual worker has been working regular hours for six or 12 months and requests to have their contract converted to a permanent full-time or part-time contract, employers cannot unreasonably refuse to do so. In fact, according to a recent decision of the Federal Court "true casual" employment is characterised by informality, uncertainty and irregularity of work, which cannot follow a fixed, regular schedule for a whole year (see Williams v MacMahon Mining Services Pty Ltd [2010] FCA 1321).

Casual workers are typically not entitled to paid holiday or sick leave. However, they can access some forms of unpaid leave (e.g. up to two days per occasion to care for a sick family member or if a family member is gravely ill or dies). Casual employees who have worked at least 12 months for regular hours in the same job and who have a reasonable expectation of ongoing work can take up to 12 months of unpaid parental leave if they have or adopt a child.

In compensation for a lack of other entitlements, casual employees receive a loading of around 25% on top of their hourly pay. In other regards, they should receive the same pay as other employees for doing the same work, including additional payments for working at non-standard times or on public holidays. In some industries, employers must pay casual employees for a minimum amount of work each time they are called in (e.g. three hours in the retail industry and two hours in the hospitality industry). Casual employees are also eligible to receive contributions to superannuation (Australia's private pension scheme) in the same way as other workers.

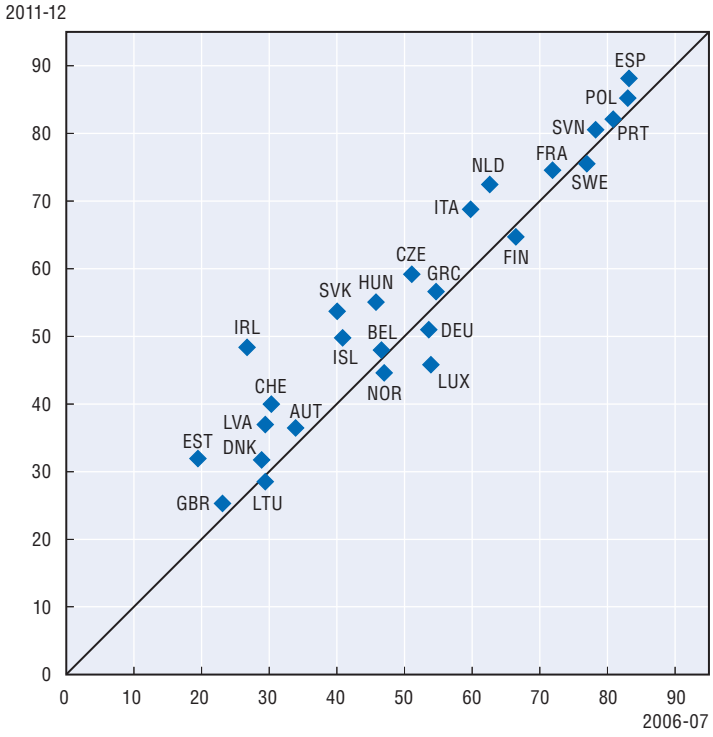
* ABS (2013) measures casual employment as the proportion of employees without paid leave entitlements. This measure corresponds closely to other measures of casual status, including employees receiving a casual loading or self-identified casual status.

Source: ABS (2013), *Forms of Employment, Australia*, Australian Bureau of Statistics, Canberra.

shows important differences across countries: in 2011-12, the share of involuntary temporary jobs (e.g. those employees who responded that the reason for having a fixed-term contract was that they *could* not find a permanent job) ranged from about 30-40% in Iceland and the Netherlands to 85% and higher in Belgium, the Czech Republic, Greece, Ireland, Italy, Portugal and the Slovak Republic, and was as large as 97% in Spain (Figure 4.3). In contrast, in Denmark, France, Sweden, Switzerland and the United Kingdom, about one fifth of fixed-term employees reported that they did not want a permanent job with this share rising to 30% in Norway and 50% in Iceland. Moreover, there is considerable country variation in the share of respondents who provided "in probationary period" as reason for being in fixed-term contracts. This category should

Figure 4.1. **Fixed-term contracts among new hires, 2006-07 and 2011-12**

Percentage of employees with no more than three months of tenure



Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS).

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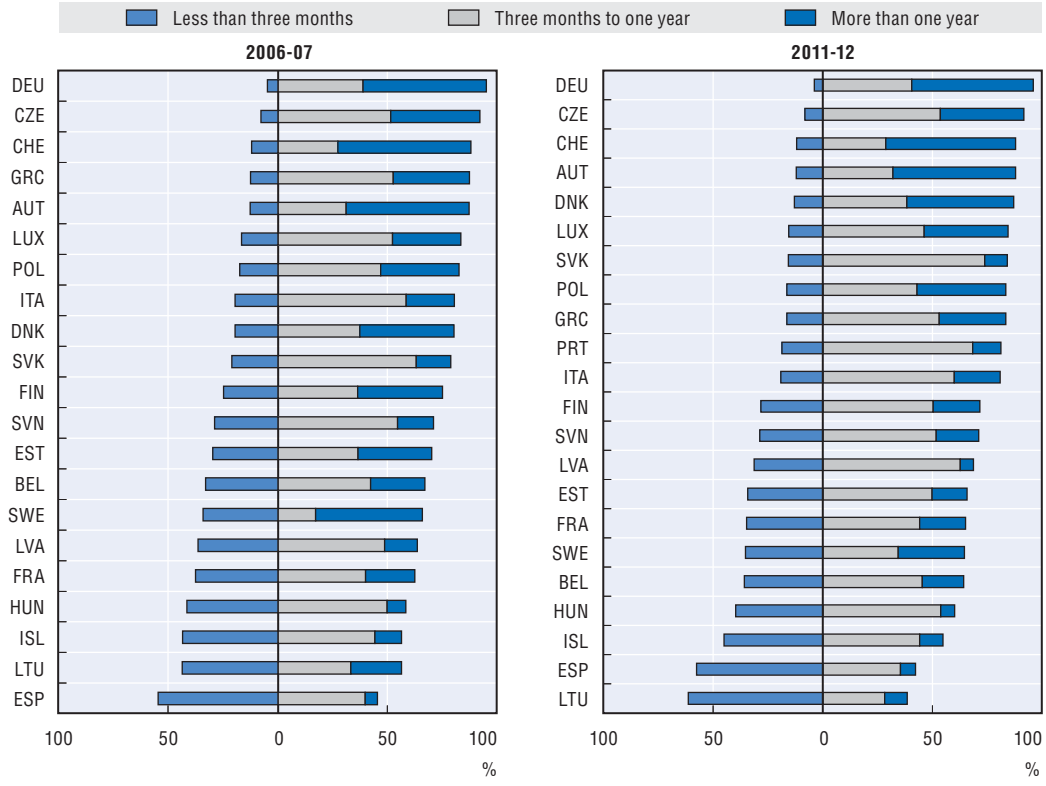
be interpreted with caution given that it could reflect differences across countries as regards individuals' assessments and expectations about main reason for why they are in a fixed-term job. For instance, the fact that in the Netherlands, 53.6% of employees reported they were on probation suggests that they responded first on their current status before gauging the voluntary or involuntary nature of their position. Conversely, in Spain, the extremely low percentage of employees identifying themselves as being on probation probably reflects the preoccupation of fixed-term employees with their poor labour market prospects. Bearing these caveats in mind, Figure 4.3 shows that in a large majority of countries, having a fixed-term contract is not a voluntary choice for most employees.

Dependent self-employed workers

According to ILO, an employment relationship is "the relationship between a person called an employee [...] and an employer for whom the employee performs work under certain conditions in return for remuneration" (ILO, 2006: 3). In general, this implies that workers who provide their labour services to an employer in return for a wage or salary are considered as employees. By contrast, own-account self-employed workers[6] are independent contractors who either autonomously produce and sell goods or engage with their clients in contracts for services, regulated by commercial law. However, in practice, the conditions of work of a number of these may be similar to those of employees, in the sense that they work mainly or exclusively for a specific client-firm – hereafter called the employer for simplicity – with limited autonomy and often closely integrated into its organisational structure (see Box 4.1). When these conditions are met, these contracts

Figure 4.2. **Duration of fixed-term contracts**

Percentage of all employees with a fixed-term contract, average 2011-12 and 2006-07

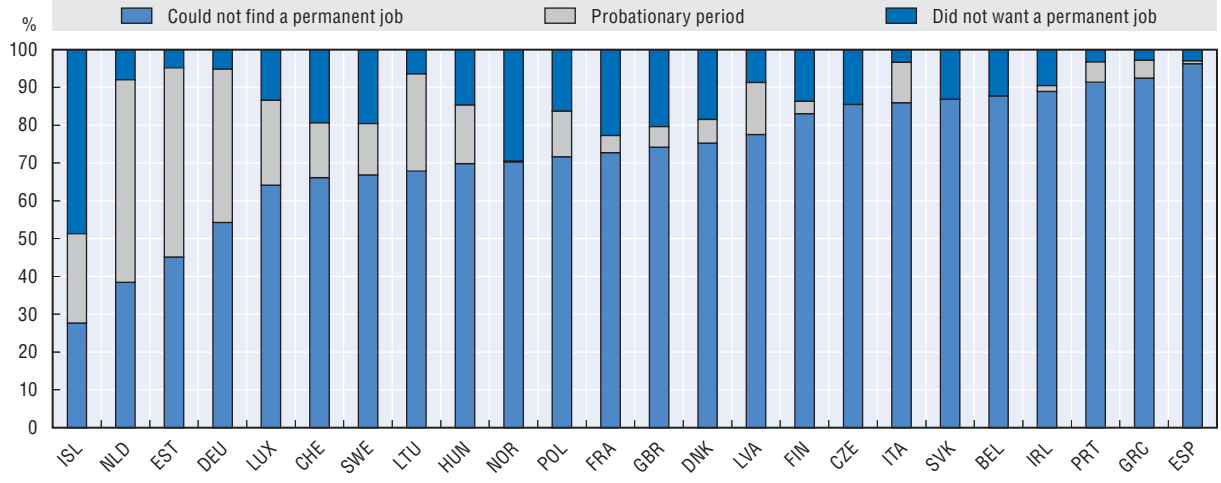


Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS).

StatLink http://dx.doi.org/10.1787/888933132583

Figure 4.3. **Reason for having a contract of limited duration, 2011-12**

Percentage of employees with a fixed-term contract, excluding students and apprentices



Note: Students or apprentices in regular education are excluded.

Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS).

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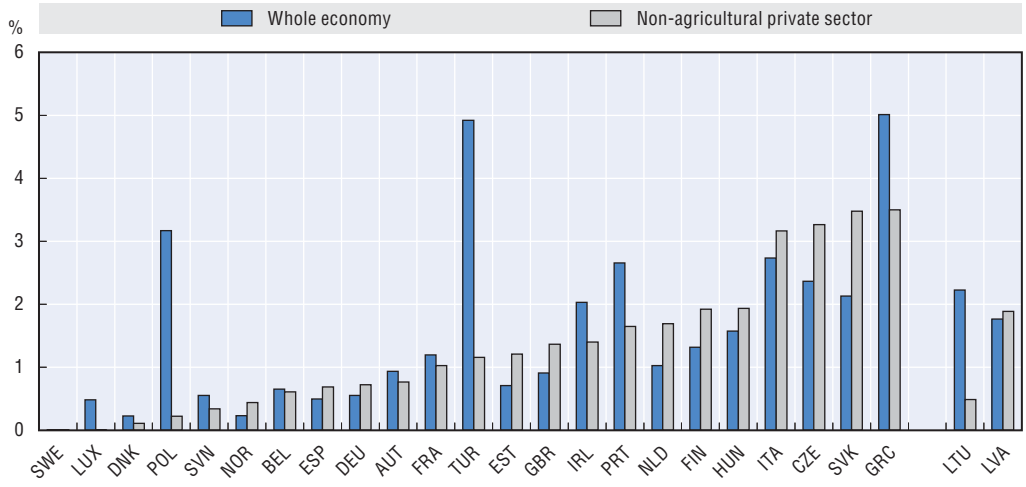
represent *de facto* another substitute for regular, open-ended employment relationships, typically entailing a lower burden of social security contributions, hiring and termination costs for the employer and different social protection rights for the worker (see e.g. EIRO, 2002a; Eichhorst et al., 2013; Kim, 2014). Nevertheless, when there is a high degree of worker subordination, the use of such contracts for services is, in principle, unlawful in many countries and key issue for policy is to identify and redress abuses (see Section 2 below). For all these reasons, therefore, it is important to measure the size of this group of workers – called dependent self-employed workers (DSEWs) hereafter – which are normally counted as self-employed in standard labour force statistics.

However, while for employees the employment contract usually defines their status, DSEWs represent a more elusive group, since dependence and/or subordination are difficult to establish in the absence of an employment contract. The typical strategy that has been adopted by specific surveys to identify DSEWs is to use responses to specific questions that closely mirror the legal tests developed by courts and legislation to distinguish self-employed, employees and other hybrid categories, when the latter are lawful. For example, according to the 1995 Institut fur Arbeitsmarkt-und Berufsforschung (IAB) survey on economically dependent workers (IAB-Scheinselbständigen-Studie), which uses the legal tests prevailing in rulings of the German Federal Labour Court, dependent self-employed (DSE) represented between 0.6% and 2.5% of the German working-age population, with the discrepancy between these two estimates depending on different classification measures (EIRO, 2002b). Burchell et al. (1999), using the UK Household Omnibus Survey for 1998, found that about 5% of employment was potentially in an ambiguous status under common-law tests for employment relationship. In Austria, around 1.1% of the labour force in 2001 worked under a contract for services for only one employer and were bound by the instructions of the client-firm – in terms of labour time and methods (Statistik Austria, 2002). In some countries, the existence of hybrid categories of own-account self-employed with contract for services regulated by labour laws (such as the Italian collaborators – cf. Section 2) allows an easier identification that, however, typically provide only a lower-bound estimate to the overall number of DSEWs. Along these lines, Berton et al. (2005), using affiliations to the special social security regime for Italian collaborators, estimate that this group represented about 2.5% of total employment of the country in the early 2000s (see Kim, 2014, for a more detailed survey of this literature).

In the same spirit of these studies, Figure 4.4 presents cross-country comparable estimates of the size of the group of DSEWs as a percentage of total dependent workers – including employees and DSEWs – using the 2010 European Working Conditions Survey (EWCS) and following the methodology suggested by Oostven et al. (2013). In practice, DSEWs are identified as an own-account self-employed for which at least two of the following conditions hold: i) they have just one employer/client; ii) they cannot hire their own employees even in the case of heavy workload; and iii) they cannot autonomously take the most important decisions in the running of their business. On average, DSEWs represent 1.6% of dependent workers in the OECD countries covered by the survey. However, in a number of countries these workers are particularly concentrated in agriculture where they represent a traditional form of employment. Limiting the attention to the non-agriculture private-sector, the share of DSEWs is somewhat lower (1.3%) but remains comparable with the share of employees covered by a TWA contracts (see Table 4.1 and below). Moreover, in some countries (the Czech Republic, Greece, Italy and the Slovak Republic), DSEWs represent at least 3% of dependent workers in the non-agricultural private sector, while they constitute

Figure 4.4. **Share of dependent self-employed as a percentage of dependent workers, 2010**



Note: Dependent self-employed workers are identified as own-account self-employed for which at least two of the following conditions hold: i) they have only one employer/client; ii) they cannot hire employees even in the case of heavy workload; and iii) cannot autonomously take the most important decisions to run their business. Dependent workers are the sum of employees and dependent self-employed. The private sector includes only private-for-profit businesses.
Source: Eurofound (2010), "5th European Working Conditions Survey (EWCS)", *www.eurofound.europa.eu/working/surveys/*.
StatLink http://dx.doi.org/10.1787/888933132621

at least 15% of all non-regular contracts in about one-third of the OECD countries covered by the survey (see Figure 4.4 with Table 4.1). Interestingly, countries with high rates of DSEWs tend to have low rates of standard fixed-term contracts, suggesting some pattern of substitutability among different types of non-regular contracts.

Overall, these figures are likely to represent lower-bound estimates of the true aggregate size of the group of DSEWs insofar as the identification of this group is solely based on individual responses. For example, for workers who were initially hired as an employee by a given firm and then moved to the status of DSEW for the same company, they are unlikely to qualify themselves as self-employed in the survey.[7]

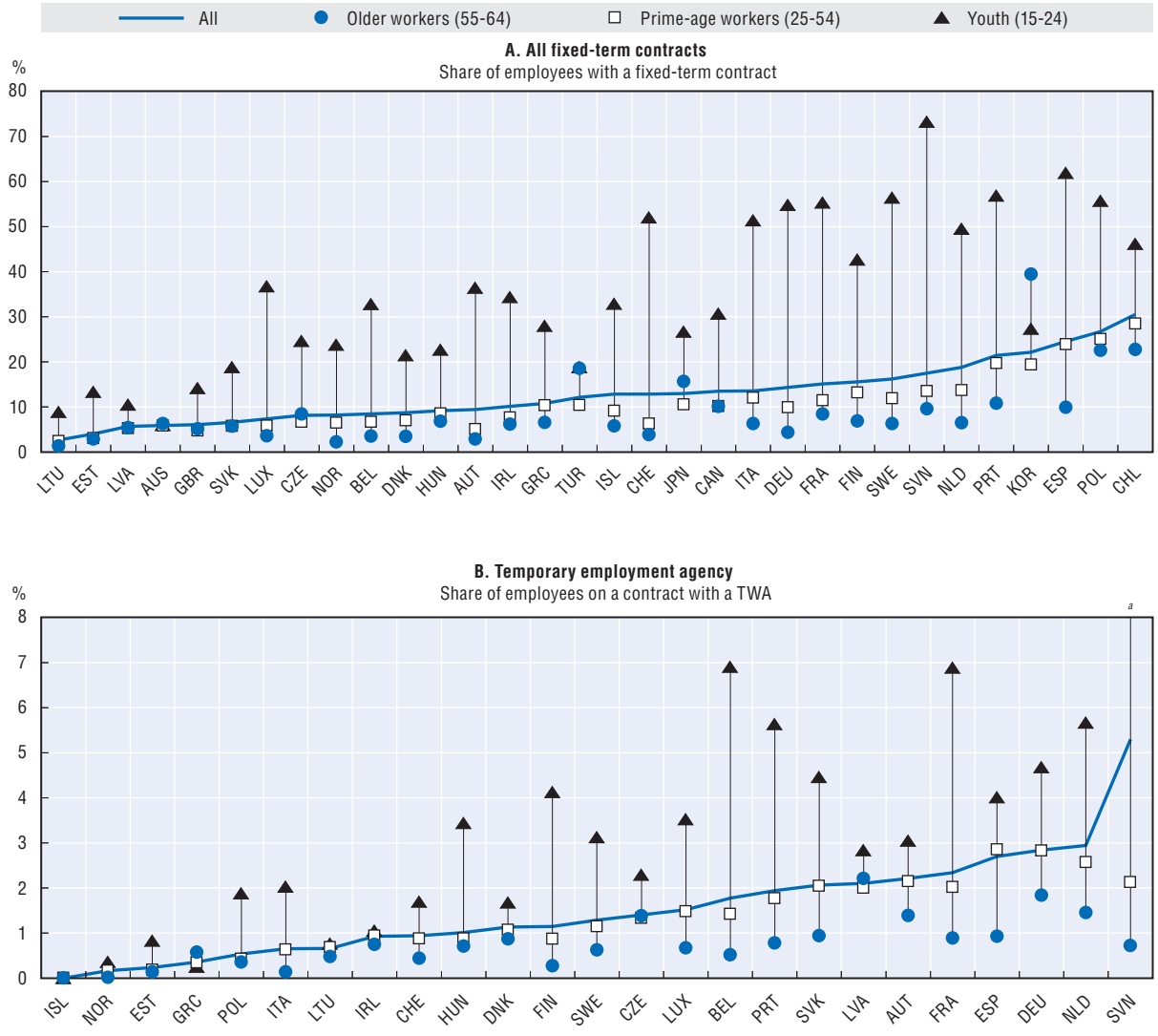
Who are temporary workers and where do they work?

This section provides additional insights into the nature and use of temporary employment[8] by looking at the profile of temporary workers by individual characteristics, such as age, gender, education, skills and occupation, as well as by the sector of the employing establishment.

Who are temporary workers?

The outstanding demographic pattern in the incidence of temporary employment is the disproportionate representation of younger workers in both fixed-term contracts and TWA employment (Figure 4.5). In almost all OECD countries, one quarter or more of employees aged between 15 and 24 years had a fixed-term contract on average in 2011-12, with this share rising to more than 50% in ten countries and up to 73% in Slovenia.[9] The only exceptions to this general pattern are Australia (no specific age profiles), Korea and Turkey (a U-shaped age pattern, with a relatively high share of older workers). However in these countries, temporary employment captures only part of the phenomenon omitting widespread forms of non-regular work such as casual work in Australia (see Box 4.2) and

Figure 4.5. **Temporary employment by age group, 2011-12**



TWA: Temporary work agency.

a) Slovenia: 23% of youth are employed with a temporary work agency.

Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS); and OECD (2013), "Labour Market Statistics. Employment by permanency of the job: incidence", *OECD Employment and Labour Market Statistics* (database), *http://dx.doi.org/10.1787/data-00297-en* (accessed on 16 March 2014).

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informal work (e.g. not affiliated to social security) in Turkey. In Estonia, Latvia, Lithuania and the United Kingdom, less than 15% of young workers held a fixed-term contract on average in 2011-12, reflecting the low overall incidence of temporary work relative to other countries.

The disproportionate share of young workers with fixed-term contracts suggests that these jobs represent the main entry into the world of work for young people. In order to abstract from this age effect, and further characterise temporary employment along other observable individual characteristics, the analysis concentrates on the prime-age group (i.e. workers aged 25-54 years) in the rest of the section. In most OECD countries, the share of women among fixed-term workers is above the share of men, but gender differences are not very pronounced (see OECD, 2014b). The only exceptions are Japan and Korea, where

women are much more likely than men to hold temporary jobs (e.g. around four times more likely in Japan). Conversely, men are more likely to work in TWA employment in the majority of OECD countries, but again gender differences are not very large, except for France and Germany, where the share of men in TWA work is twice as high as for women. Less-educated workers (e.g. who have not completed upper-secondary schooling) are also over-represented in temporary jobs (both fixed-term and TWA employment) in many OECD countries but to varying degrees. About a quarter of less-educated employees held a fixed-term contract in Hungary and Spain in 2011-12, with this share rising to 40% in Poland and the Slovak Republic (Figure 4.6). In other OECD countries, the most educated employees were as likely (and in some cases even more likely) to be working in temporary jobs than the other categories (e.g. Austria, Canada, Denmark, Iceland, Italy, Luxembourg, Norway, Portugal, the United Kingdom and Switzerland).

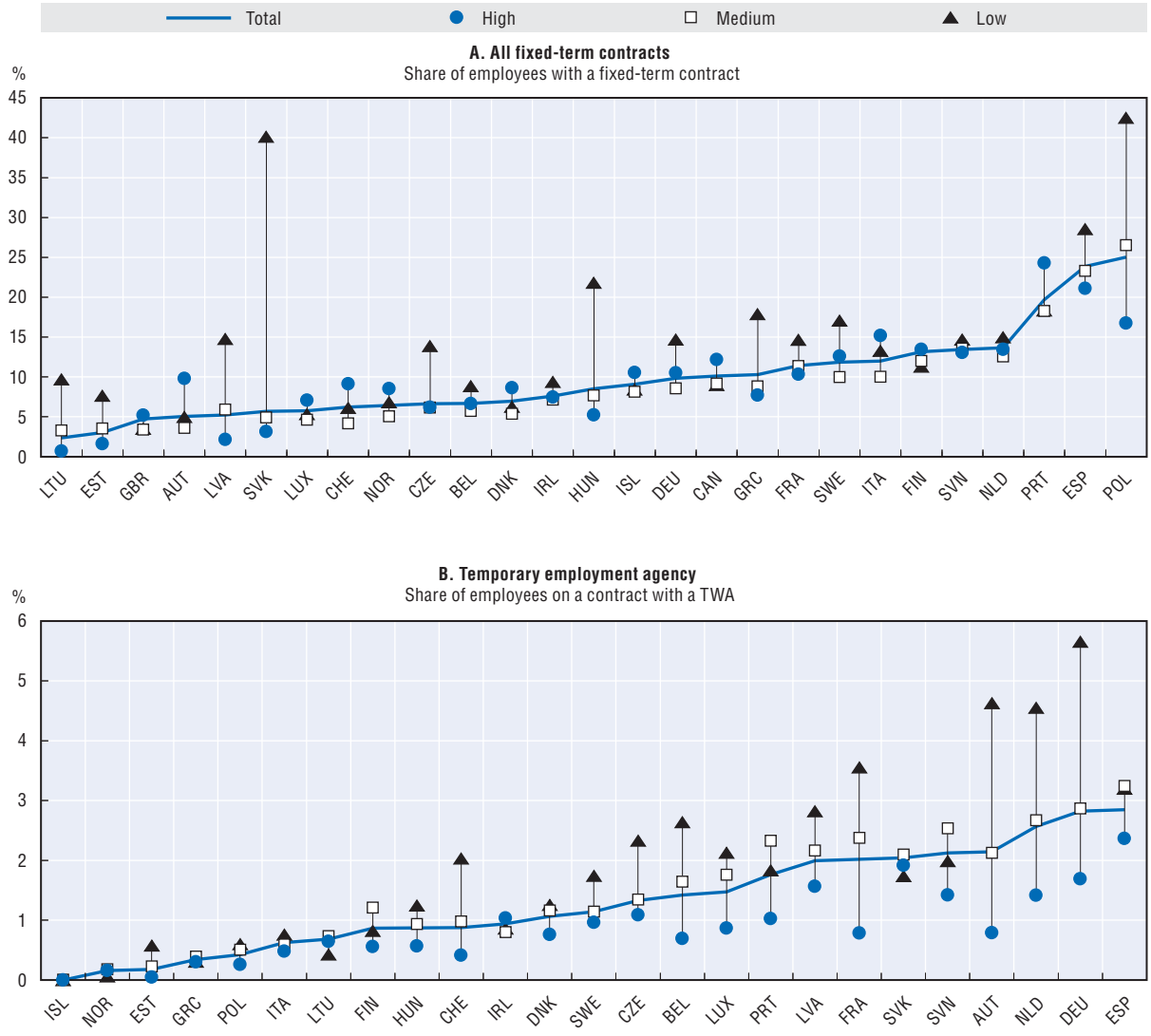
Educational attainment represents a coarse and imprecise measure of productive skills. Recent analysis has found, for instance, that while educational attainment was closely correlated with proficiency in cognitive skills, competences levels vary considerably among individuals with similar qualifications (OECD, 2013b). Based on the OECD Adult Skills Survey (Programme for the International Assessment of Adult Competencies – PIAAC), which assesses the proficiency of adults aged 16 to 65 in literacy, numeracy and problem solving in technology-rich environment,[10] the scores of temporary workers[11] in these information-processing skills can be compared to those of permanent workers, controlling for age[12] (Figure 4.7). The results for literacy and numeracy skills are clear-cut: they show that individuals employed in temporary contracts have lower proficiency across all participating countries, except for the United States and Australia.[13]

Temporary workers have on average literacy or numeracy scores that are around 3.5% to 4.5% lower than those of permanent workers in those countries which display statistically significant differences. Differences are less systematic for problem solving in technology-rich environment, notably for Denmark and Finland where temporary workers perform better than permanent ones (about 2% higher). There exists also some diversity across countries, with differences in scores more pronounced in France, Poland, the Slovak Republic, Spain, Sweden and the United Kingdom. Not surprisingly, those patterns do not fully match those characterising temporary workers by education and reveal interesting differences between educational and skills endowment notably in the United Kingdom.[14]

Where do temporary workers work?

The sector and occupational profiles of temporary jobs provide supplementary information to understand some of the differences in characteristics between regular and non-regular workers identified in the previous section. For instance, gender differences in temporary jobs are largely explained by the high concentration of temporary jobs in agriculture and construction, as well as elementary occupations, e.g. predominantly manual jobs that are typically held by men. In the majority of OECD countries, agriculture accounts for the largest share of temporary jobs, up to 58% in Italy or Spain for employees aged 25-54, followed by construction, up to 40% in Spain and Poland (see Annex Figure 4.A1.1). However, education and social services sectors, as well as public administration, are other sectors where temporary jobs are widespread, with shares of temporary workers above 15% (e.g. Finland, France, Germany, Italy, Portugal, Slovenia, Spain and Sweden). Many of the temporary jobs in these sectors are "pink-collar" jobs such as retail sales clerks and secretaries, but some are also in

Figure 4.6. **Temporary employment by level of education of people aged 25-54, 2011-12**

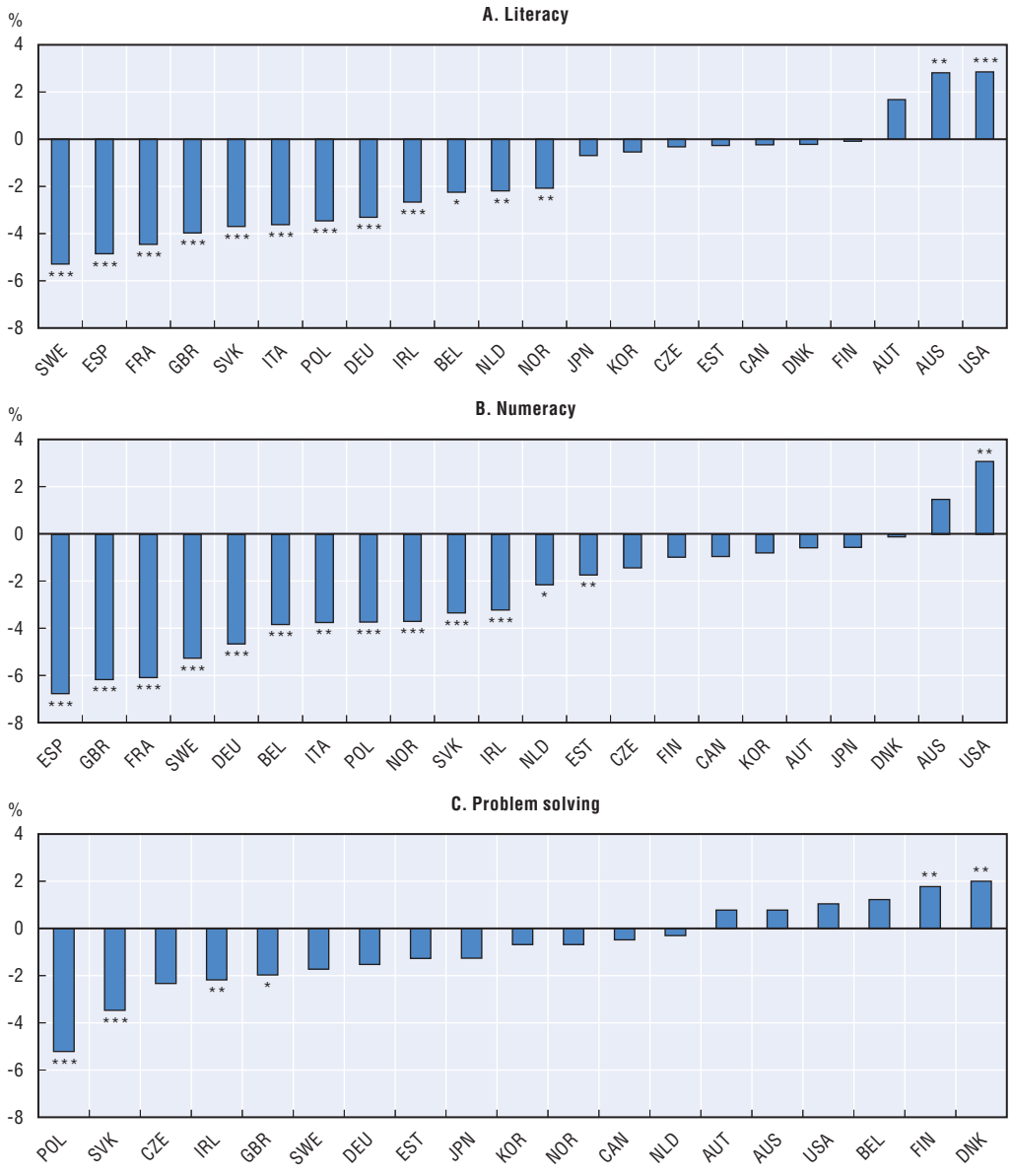


Note: Canada: "Low" corresponds to 0-8 years and some secondary education; "Medium" corresponds to grade 11 to 13, graduate and some post- secondary; "High" corresponds to post -secondary certificate diploma, bachelors' degree and graduate degree (university).
TWA: Temporary work agency.
Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS) and national labour force surveys.
StatLink http://dx.doi.org/10.1787/888933132659

white-collar higher skilled positions, such as managerial and professional occupations. Nevertheless, the highest incidence of temporary jobs is found in elementary occupations in all countries except for Austria and Switzerland (Figure 4.8). The incidence of TWA employment also tends to be highest in elementary occupations as well as for skilled blue-collars in many countries. Slovenia, where the share of middle-skill white-collar employees holding a TWA contract is above 3%, represents an exception, probably reflecting the relatively high incidence of TWA employment among educated youth.

Figure 4.7. **Differences in information-processing skills: Temporary compared to regular workers**

Percentages



Note: The data are based on the results of the OECD Survey of Adult Skills (PIAAC) in which around 166 000 adults aged 16-65 were surveyed in 24 countries and sub-national regions. The survey included an assessment of literacy, numeracy and problem-solving skills in a technologically rich environment. The charts present differences in average measured scores between temporary and regular workers, as a percentage of average scores for regular workers. Temporary workers include those with fixed-term contracts and all forms of TWA contracts. Workers declaring "no contract" are excluded except in the United States, where a contract is not required for regular employment due to the dominance of the employment-at-will principle and more than 50% of the respondents declare having no contract. In this country the category "no contract" has been reclassified as "regular workers". The estimated differences control for 5-years age dummies and are expressed as percentage of the average score in literacy, numeracy and problem solving, respectively.

***, **, *: significant at the 1%, 5% and 10% level, respectively.

TWA: Temporary work agency.

Source: OECD Survey of Adult Skills (PIAAC) 2013, *http://dx.doi.org/10.1787/9789264204256-en*.

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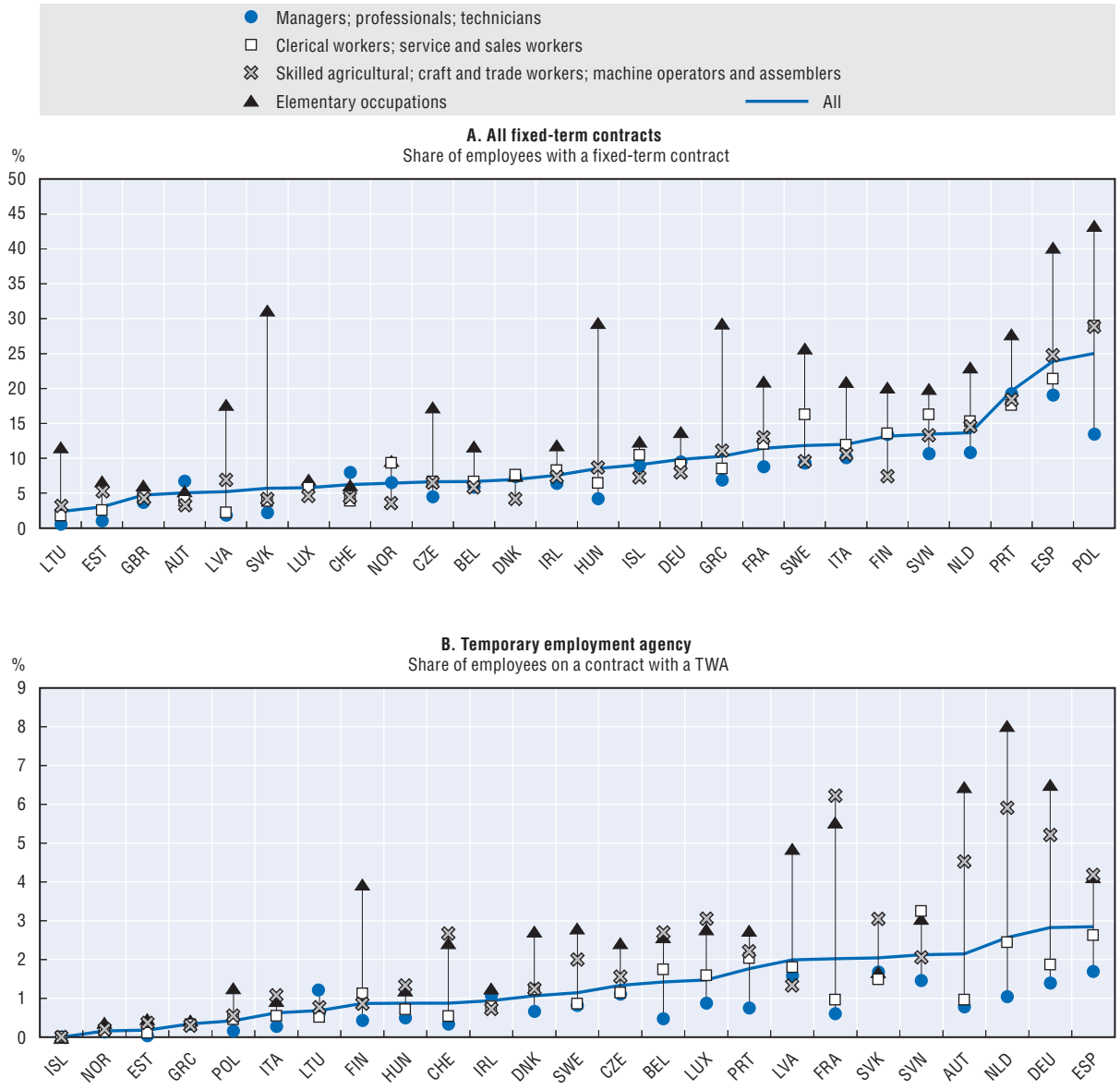
Figure 4.8. **Temporary employees aged 25 to 54 by occupation, 2011-12**



TWA: Temporary work agency.
Source: OECD calculations based on European Union Labour Force Survey (EU-LFS) microdata.

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2. Statutory employment protection of non-regular workers

In this section, the regulations governing the use of different temporary employment contracts in OECD countries are examined, exploiting new information collected by the 2013 OECD's questionnaire on employment protection legislation (EPL hereafter; see OECD, 2013a).[15] In particular, the discussion expands upon the 2013 update of OECD EPL indicators by providing more detailed information in three specific areas. First, information is presented about the ease of terminating fixed-term contracts, notably termination costs *at* and *before* end dates. Second, other forms of non-standard fixed-term contracts are considered, such as seasonal and project-work contracts. Third, the scope of information

on the regulation of TWA contracts is expanded to cover both the constraints and costs associated to the assignment and the contract itself from the perspective of both the TWA (as an employer) and for the user firm (where the TWA employee is placed).

This supplementary information serves to document further the way different statutory provisions effectively protect workers or provide incentives for employers to use different contract types. The inclusion of termination rules for temporary contracts is crucial for assessing the costs of labour market duality and discussing policy options (see Section 4 below). As pointed out in OECD (2013a), the OECD EPL summary indicator on the rules governing individual temporary contracts (EPT hereafter) is based on information concerning the conditions for use and maximum duration of contracts, therefore capturing mostly hiring rules and, hence, not allowing full comparability with dismissal regulations for permanent contracts.[16]

Expanding the information available on the regulation of non-regular contracts, allows carrying out a more nuanced analysis of the use of the different temporary contracts, and in particular of TWA employment, which typically relies on a triangular relationship and involves two sets of contractual arrangements. The first is the employment contract between the agency and the worker (referred to below as the "TWA contract") and is usually regulated in the same or similar way as other employer-employee relationships. The second is the contract for providing services between the agency and the user firm (referred to below as the "assignment") and is not usually subject to standard employment regulations. The regulations governing TWA contracts described in this section complement the information provided in OECD (2013c) on the regulations governing the operation of temporary work agencies, such as licencing or reporting requirements, as well as on equal treatment for TWA workers and other workers doing the same job at the user firm.

Regulation on temporary employment

Valid circumstances for using temporary contracts

Table 4.2 outlines the circumstances in which the different types of temporary contracts can be used. As regards standard fixed-term contracts (FTCs) – defined for the purpose of this chapter as a generic employment contract with a precisely specified end date (in the form of day, month and year at which the employment relationship is set to end, if the contract is not renewed) – there are *no or minimal restrictions* on the type of work or workers for which they are allowed in almost two-thirds of OECD countries, at least for the first contract. In those countries that require specific circumstances for using FTCs, the most common restriction is a justification on the basis of an "objective" or "material situation", such as the temporary nature of the task itself or the replacement of workers on leave. This is the case in Turkey and, with some possible derogations, in Estonia, France, Greece, Luxembourg and New Zealand, Norway, Portugal, Slovenia and Spain. In Finland, even though restrictions apply in principle, a fixed-term contract can always be concluded by mutual agreement. Finland, Luxembourg, Norway, Portugal, Slovenia and Spain further consider the hiring of particular types of workers, such as those undertaking training as a legitimate reason for the use of FTCs. Most OECD countries authorise however special types of fixed-term contracts when the duration of the work tasks to be performed is determined by seasonal factors or by the completion of a project. Some countries do however limit seasonal work to particular industries or occupations.

Table 4.2. **Valid cases for use of non-permanent employment contracts**

	Standard fixed-term contracts[a]	Seasonal contracts[b]	Project work contracts[b]	TWA contracts
Australia	1	1	1	1
Austria[c]	1	2	1	1
Belgium	1	1	1	2
Canada	1	1	1	1
Chile	1	2, 3	2, 3	2
Czech Republic[d]	1	5	5	1
Denmark	1	1	1	1
Estonia	2, 3	2	2	2
Finland[d]	1, 2, 4	1	2	1
France	2, 3	2, 3	2, 3	2
Germany	1	1	1	1
Greece	2	2	2	2
Hungary	1	2, 3	1	1
Ireland	1	1	1	1
Israel	1	1	1	1
Italy[e]	1	2, 3	5	2
Japan	1	1	1	1
Korea	1	1	1	2, 3
Luxembourg	2, 4	3	5	2, 3
Netherlands	1	1	1	1
New Zealand[f]	2	2	2	1
Norway	2, 3, 4	2	5	2, 3, 4
Poland	1	1	1	2
Portugal	2, 3, 4	2, 3	2	2
Slovak Republic	1	2	5	2
Slovenia[g]	2, 3, 4	2	2	1
Spain	2, 4	2	2	2, 3, 4
Sweden[h]	1	1	2, 3	1
Switzerland	1	1	1	1
Turkey	2, 3	2	2	..
United Kingdom	1	1	1	1
United States	1	1	1	1

1 = generally allowed with no or minimal restrictions;[a] 2 = allowed in some circumstances related to the nature of the work (e.g. for short-term tasks, replacement of workers on leave, etc.);[b] 3 = allowed in specified industries or occupations; 4 = allowed in some circumstances related to the characteristics of the worker (e.g. trainees, youth, older workers, etc.); 5 = allowed only outside an employment relationship.[b]

.. Not allowed.

a) Objective reasons are not required for the first FTC in Austria, Denmark and Hungary. However, restrictions apply for renewals or new contracts with the same employer. In certain countries minimal restrictions apply, such as the exclusion of specific industries from the use of TWA employment (e.g. construction industry in Germany; transport services, construction work, security services, medical-related work at hospital in Japan; and seamen in the Netherlands).

b) Seasonal and project work contracts are, by definition, of a short-term nature and justified by the characteristics of the activity. The distinction between categories 1 and 2 is therefore somewhat arbitrary and must be taken with caution. In a few countries, these contracts are only allowed as specific contracts for services outside an employment relationship. Workers with these contracts can be considered dependent self-employed.

c) In Austria, open-ended TWA contracts are generally allowed. However, fixed-term TWA contract are only allowed for objective reasons related to the nature of the work.

d) In Finland, at the request of the employee, the employment contract can always be concluded for a fixed term, and the contract is binding upon the employer and the employee. The scope of TWA work may be restricted in collective agreements.

e) In Italy, fixed-term contracts cannot exceed 20% of regular contracts, with only a few derogations, in particular for very small firms.

f) In New Zealand, the Employment Relations Act provides that, the employer must have a genuine reason based on reasonable grounds for specifying that the employment of the employee is to be fixed term. Excluding or limiting the rights of an employee or using FTCs as a substitute for probationary periods are not genuine reasons.

g) In Slovenia, the scope of TWA work may be restricted in collective agreements. TWA employment cannot exceed 25% of employment at the user firm, except if a collective agreement establishes otherwise.

h) In Sweden, user firms must consult with trade unions if they wish to use TWA workers. Trade unions can veto the use of TWA employment if there is a threat that laws or collective agreements may be violated. Project-work contracts without a specified end-date are allowed only in a few collective agreements.

Source: 2013 OECD EPL questionnaire; OECD (2013), "Detailed Description of Employment Protection Legislation, 2012-2013", *www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm*.

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Seasonal and project work contracts are thus specific types of FTC rather than different employment contracts in their own right. In most OECD countries, employees can be engaged to undertake seasonal or project-based work, where the length of the contract is defined based on the completion of the season or project.[17]

TWA contracts are permitted for all types of work in about half of OECD countries. In all other countries, except Turkey, TWA contracts are allowed for specific types of work (e.g. for objective reasons) or in specific industries, or a mixture of the two. For example, in Korea, TWA contracts are allowed in 32 occupations, or in other occupations where there is a temporary or intermittent need for additional labour. Only in Turkey are TWA contracts not allowed for any type of work.

Renewals, prolongation and conversion rules of temporary contracts

In many countries there are restrictions on the number of renewals or successive FTCs under which a worker can be employed by the same firm without interruption.[18] Provisions may also require a minimum waiting period between two contracts. The existence of such a cooling-off period between contracts is an important element for firms' hiring decisions, but it has also important implications for workers: while such provisions are typically introduced to prevent abuses, they may actually generate the perverse effect of increasing job insecurity as perceived by the workers they originally intended to protect (see Section 3).

Table 4.3 outlines the regulations governing the duration and renewal of FTCs as well as the circumstances in which FTCs may be converted into an open-ended contract. Only three countries (Canada, Israel and the United States) have no regulation at all on the cumulative duration or renewals of FTCs. Even in those countries where there are no legal restrictions on the number of renewals and/or successive contracts (notably in Australia, Denmark, Finland, Japan, New Zealand and Switzerland), courts may consider the succession of contracts as sham FTCs hiding a permanent employment relationship.[19] The consequences in these cases could vary from paying damages to the employee concerned to ordering reclassification of the contract into an open-ended one. In Belgium, Ireland and the Netherlands there is no limit on the duration of the first FTC but restrictions apply to subsequent contracts.

In the majority of OECD countries, FTCs are limited in cumulated duration (typically to 2-4 years), although these limits may apply only to FTCs made without objective reasons, as in Belgium, the Czech Republic, Germany and Ireland. As pointed out above, a cooling-off period between contracts is required in many countries in order for two contracts not to be considered successive. These minimum breaks range from two months or less in Estonia, Greece and Poland to three years in the Czech Republic and Germany. In Italy, there is no cooling-off period, which means that the maximum cumulative duration of a sequence of fixed-term contracts, even with interruptions, cannot be longer than three years. In about one-third of OECD countries, however, the continuity of the employment relationship between two successive contracts is left to the courts to decide on a case-by-case basis.

Seasonal contracts where the end of the contract is specified as the end of a season or with respect to the seasonal closure of the company (rather than as a specific date) are allowed in most OECD countries (see Annex Table 4.A1.1). In Belgium and Finland, the contract must include a specific end date. In Austria, Chile, Greece, Hungary and Luxembourg, the use of seasonal contracts is limited to a few industries, most commonly

Table 4.3. **Duration, renewals and circumstances for conversion of standard fixed-term contracts (FTC) to permanent ones**

	Maximum number of successive contracts (including renewals)	Maximum cumulated duration of successive contracts (including renewals)	Cooling-off period between two FTCs not to be considered successive	Circumstances (rules violations) that entail conversion of a FTC into a permanent contract
Australia	Estimated 1.5	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Courts may found continuous renewals of FTCs as a way to avoid termination laws.
Austria	Estimated 1.5	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Lack of objective reasons for contract extension. Ongoing employment after end date.
Belgium	Four (six with approval of Labour Inspectorate).	No limit for the first contract, otherwise two years (three with approval of Labour Inspectorate).	Case-by-case assessment of continuity by courts in case of complaint.	Violation of limits on use, duration and renewal of FTCs. Lack of written contract (except when allowed by CA). Lack of written end date for FTC.
Canada	No limit	No limit	Not applicable	Usually, if employment continues beyond the end of the contract, statutory provisions on advance notice as for regular workers apply. In British Columbia, this occurs only if employment continues for at least three months beyond the end of contract.
Chile	Two	12 months (two years for managers or those with university degree).	Case-by-case assessment of continuity by courts in case of complaint.	Violation of limits on duration and renewal of FTCs. Too short cooling-off periods.
Czech Republic	Three	Three years for each contract (or renewal period).	Three years	Violation of limits on duration and renewal of FTCs.
Denmark	Estimated 2.5	Estimated 24 months	Case-by-case assessment of continuity by courts in case of complaint.	None
Estonia	Two	Five years for each contract (or renewal period).	Two months.	Violation of laws or CAs governing FTCs, including exceeding number and duration of contracts; ongoing employment after the end date.
Finland	Estimated 2.5	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Contracts made for a fixed term on the employer's initiative without a justified reason are considered valid indefinitely.
France	Estimated two	9-24 months, typically 18 months.	If FTC < two weeks: 1/2 contract duration. If FTC > two weeks: 1/3 contract duration.	Violation of any of the regulations governing the use of FTC including use for non-objective reasons and exceeding duration or renewal limits or waiting period between contracts.
Germany	Four	2-4 years	Three years	Violation of limits on duration and renewal of FTCs.
Greece	Three	Three years	45 days	Use of the contract to cover permanent needs; violation of renewal limits without an objective reason.
Hungary	Estimated 2.5	Five years	Six months	None
Ireland	No limit	No limit for the first contract, otherwise four years.	Case-by-case assessment of continuity by courts in case of complaint.	Violation of duration limit or renewal without objective reasons.
Israel	No limit	No limit	Not applicable	None
Italy	Six	Three years	None	Employment extends 30-50 days beyond end date. Contract duration exceeds 36 months.
Japan	No limit	Three years for each contract (or renewal period)	Six months (half of the contract duration if FTC is less than one year)	After repeated renewals the employee becomes entitled to expect continuing renewal and the employer must have just cause to refuse it.
Korea	No limit	Two years	Case-by-case assessment of continuity by courts in case of complaint.	Contract extends beyond maximum duration. Repeated renewals could be considered by courts as evidence of an indefinite relationship.
Luxembourg	Three	Two years	1/3 contract duration.	Violations of rules governing use. Duration and renewal of FTCs.
Netherlands	Three	No limit for the first contract, otherwise three years.	Three months	Violation of limits on duration and renewal of FTCs.
New Zealand	Estimated four	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Lack of genuine reason for FTC. Lack of written notice about how the employment will end. Courts may found continuous renewals of FTCs as a way to avoid termination laws.
Norway	No limit	Four years	Case-by-case assessment of continuity by courts in case of complaint.	Employment beyond maximum limit. Lack of objective reasons. Repeated renewals could be considered by courts as evidence of an indefinite relationship.
Poland	Two	No limit	One month	Third successive FTC without a break of at least one month.
Portugal	Four	2-3 years in most cases	1/3 contract duration	Violations of limits on duration or renewal of contracts. Employment extends 15 days after end date.

Table 4.3. **Duration, renewals and circumstances for conversion of standard fixed-term contracts (FTC) to permanent ones** *(cont.)*

	Maximum number of successive contracts (including renewals)	Maximum cumulated duration of successive contracts (including renewals)	Cooling-off period between two FTCs not to be considered successive	Circumstances (rules violations) that entail conversion of a FTC into a permanent contract
Slovak Republic	Three	Two years	Six months	Violations of renewal or duration limits. FTC without fixed end date. No written contract.
Slovenia	No limit	Two years	Three months	Violation of rules on use, duration and renewal of FTCs. Lack of a written contract
Spain	Estimated three	12-48 months	Varies	Violations of renewal or duration limits. Ongoing employment after maximum duration limit or once objective reason for use of FTC no longer exists.
Sweden	No limit	Two years within a five-year period	Not applicable	Violation of limits on use or duration of FTCs.
Switzerland	Estimated 1.5	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Automatic renewal of FTC at its end date. Successive contracts imply the risk of a court declaring the fixed-term contract null and void.
Turkey	Estimated 1.5	No limit	Case-by-case assessment of continuity by courts in case of complaint.	Renewal without a serious objective reason.
United Kingdom	No limit	Four years	Case-by-case assessment of continuity by courts in case of complaint.	Employment beyond maximum duration.
United States	No limit	No limit	Not applicable	Not regulated.

Note: In the case in which the lawfulness of a sequence of contracts is assessed by courts on a case-by-case basis, the estimated maximum number of contracts represents an estimate of the average number of contracts admitted by courts.

Country notes:

Austria: After the first contract, renewals require objective reasons.

Belgium: No maximum number if these FTCs can be justified by an objective reason (e.g. nature of the work or other legitimate reasons). Minimum contract duration is three months (six months with Labour Inspector approval (*Inspection des lois sociales*).

Chile: A worker employed intermittently under more than two FTCs for 12 months out of a continuous period of 15 months is assumed to have a permanent contract. Exemptions apply to arts and show business employment and professional football players.

Czech Republic: exceptions are possible to the rules governing the renewals, duration and cooling-off period for serious operational reasons for having FTCs (nature of the work, or unreasonable requirement for open-ended contract). In these cases, written agreement is needed between the employer and union or employee representatives.

Denmark: Renewals must be based on objective reasons. A period of a couple of months is usually considered a reasonable cooling-off period. Courts may find that continuous renewals of FTCs has been used as a way to avoid termination laws, but compensations and fines are the only instruments for redress.

Finland: It is prohibited to use consecutive FTCs when the number or total duration of FTCs indicates permanent needs for labour.

France: FTCs can be extended once if provided for in the terms of the contract or in another agreement between the employer and the employee. Extensions are permitted for objective reasons only. Limitations on successive contracts do not apply to contracts concerning different positions and to occupations for which FTCs are the traditional form of employment.

Germany: FTCs made for objective reasons are not subjected to restrictions on duration or renewals. The maximum duration is four years for new businesses or five years for those aged 52 years and over.

Greece: Refutable presumption of indefinite employment relationship if the contract is renewed twice or the total duration exceeds three years without a justified reason.

Hungary: FTC renewal must be based on objective reasons that have no bearing on work organisation and must not infringe upon the employee's legitimate interest.

Ireland: Renewals of FTCs beyond four years allowed if justified by objective reasons. If a cooling-off period is considered as a period of temporary lay-off rather than termination, the service is deemed to be continuous under case law.

Italy: In the case of two separate contracts with the same firm, there must be an interruption of 10-20 days (depending on the duration of the contract), otherwise the contract is deemed to be open-ended. This rule does not apply to renewals of the same contract.

Japan: FTCs of up to three years duration are allowed without objective reasons (five years are allowed for highly skilled workers for those aged 60 and over). This limit applies to each contract and not to the cumulated duration of successive contracts, which can be longer. Any fraction less than one month between contracts is counted as one month as regards the cooling off period.

Luxembourg: Some categories of workers (teachers, artists, performers, athletes, coaches) are not subject to restrictions on renewals of fixed-term contracts.

Netherlands: The number of renewals and maximum duration can be altered by collective agreement.

New Zealand: The courts may find a FTC does not meet the requirements for a FTC if there is continuous renewal of the contract. The way the employment will end must be specified in writing at the start of the employment period.

Norway: Certain categories of workers are exempt from the four-year limit (e.g. trainees, ALMP participants, sportspeople).

Portugal: There are some exceptions to duration limits and the minimum cooling-off period, e.g. for workers searching for their first job.

Slovak Republic: Contract renewal beyond the maximum permitted duration limit must be based on objective reasons.

Slovenia: The two-year limit applies also to successive contracts with different workers but for the same position.

Spain: Duration and renewal limits vary depending on the reasons for FTCs. Usually, for an employment relationship of a cumulative duration of 24 months within a period of 30 months, the relationship will be considered of indefinite duration. Exceptions are training contracts and contracts for a specific task or service.

Sweden: The maximum duration limit applies separately to different types of FTCs, so it is possible to combine FTCs for more than two years if they are for different purposes. However, abusive use of FTC is not allowed. Deviations from these limits are allowed in collective agreements.

Source: 2013 OECD EPL questionnaire; OECD (2013), "Detailed Description of Employment Protection Legislation, 2012-2013", *www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm*.

agriculture and tourism-related activities. Several countries impose limits on the maximum duration of seasonal work: ten months in Luxembourg and 60 days per year in Portugal for short-term seasonal work. In Hungary, seasonal work in agriculture and tourism is limited to 120 days per year and up to 90 days is allowed in other industries under "simplified employment" rules.[20] Regardless of whether seasonal work is performed under a FTC or a specific seasonal contract, termination rules are generally the same as for FTCs.

Like seasonal work, project-work contracts are another special type of FTC where the end date is defined by the completion of a particular project or task. In Finland and Sweden, a fixed end date must be specified (although variation from this rule is possible by collective agreement in Sweden). In several countries, the task (and the conditions which signify its completion) must be outlined in some detail in the employment contract or at the commencement of the work. Few other limitations apply to this type of work beyond those that apply to FTCs in general. Some notable exceptions are that project work-contracts must have a duration of between 18 to 36 months in France or a maximum duration of three years in Spain (with an additional 12 months allowed by collective agreement).

In the case of TWA employment, restrictions exist on the number of renewals and/or duration of TWA assignments with the user firm in about one half of OECD countries (Belgium, Chile, the Czech Republic, Estonia France, Germany, Greece, Hungary, Israel, Italy, Japan, Korea, Luxembourg, Norway, Poland, Portugal, Spain and Switzerland) (see Annex Table 4.A1.2). Where TWA contracts between the agency and its workers are fixed-term, they are typically subject to the general rules on the use of FTCs outlined in Table 4.2. In Sweden, however, the collective agreement for blue-collar TWA workers limits duration of fixed-term contracts between the agency and the worker to 12 months, which is more restrictive than for normal FTCs.

Open-ended TWA contracts are allowed in most countries, with the exception of Belgium, Luxembourg, and Poland (and Turkey where TWA contracts are prohibited in general). In Belgium assignments and contracts must also be synchronised (and therefore are temporary).[21] In Austria and Norway, TWA contracts must be open-ended unless there is an objective reason to use an FTC. In most countries, where TWA contracts are open-ended, workers have to be paid by the agency for the period between two consecutive assignments, although pay between assignments is at a lower rate than the normal wage in a few of them – notably in France, Greece, Italy, Japan, the Netherlands and Portugal, and for workers not covered by collective agreements in Germany. In Canada, Denmark, Finland, Israel, Norway, New Zealand, Spain, the United Kingdom and the United States there is no explicit mandatory requirement for paying wages or allowances for the period between two consecutive assignments even if the worker holds an open-ended contract with the agency.

Termination rules before and at the end date of the contract

Differences in termination rules governing respectively fixed-term and open-ended contracts have been singled out as an important driver of labour market duality (see OECD, 2013a, and below). In this respect, two types of costs should be considered depending on whether the termination takes place before the end date (in the case of FTCs) and on the "fairness" of the termination. As shown in Table 4.4, different rules apply for terminating FTCs *before* and *at* the end date of the contract. In most countries, termination of FTCs before the end date is at least as difficult and costly as terminating contracts with indefinite duration. In some countries, termination costs before the end date may actually

Table 4.4. **Costs and difficulty of dismissals of workers with standard fixed-term contracts as compared to regular contracts**

	Difficulty of dismissal[a]		Notice and severance pay		Procedural inconvenience[b]	
	Before end date	At end date	Before end date	At end date	Before end date	At end date
Australia	Same	None	None	None	Same	None
Austria[c]	Same, compensation for UNFD: remaining contract period.	None	Same	None	Same	Some CAs require notification of non-renewal.
Belgium	Same	None	Wages for remaining contract period must be paid up to maximum of double the severance pay due to a worker with a regular contract.	None	Same	None
Canada[d]	Usually same, compensation for UNFD may be for remaining contract period (e.g. Alberta).	None	Usually same	None	Usually same	None
Chile	Same, compensation for UNFD may be for remaining contract period.	None	Same	None	Same	Same
Czech Republic	Same	None	Same	None	Same	None
Denmark	Same, compensation for UNFD only paid to those with 12+ months' tenure.	None	Same	None	Same	None
Estonia	Same	None	Same, in case of layoff for economic reasons, wages for remaining contract period must be paid.	None	Same	None
Finland	Termination is allowed only if agreed in contract terms, if the contract is 5+ years long or on very limited other grounds. In these cases, the same rules apply as for regular contracts.	None	Same (if termination is allowed).	Advanced notice is required if the contract end date is not set in advance (e.g. based on completion of a set task).	Same (if termination is allowed).	Advanced notice is required if the contract end date is not set in advance (e.g. based on completion of a set task).
France[e]	Termination can only take place by agreement or on limited grounds, including *force majeure*, serious misconduct, ill-health or because the employee has found a permanent job. Compensation for UNFD is for remaining contract period.	None	Same (if termination is allowed).	Severance pay (*Prime de précarité*) equal to 10% of the total gross compensation since the beginning of the contract (6% in certain collective agreements).	Same (if termination is allowed).	None
Germany	Same	None	Same	None	Same	None
Greece	Termination is only allowed for significant reasons as judged by a court (e.g. employee suspected of criminal offence, breach of contractual obligations).	None	Wages for remaining contract period must be paid if termination is for other than significant reasons.	None	Notice of termination is required, but does not have to be written.	None

Table 4.4. **Costs and difficulty of dismissals of workers with standard fixed-term contracts as compared to regular contracts** *(cont.)*

	Difficulty of dismissal[a]		Notice and severance pay		Procedural inconvenience[b]	
	Before end date	At end date	Before end date	At end date	Before end date	At end date
Hungary	Same. Wages for remaining contract period (up to one year) must be paid for termination without reason.	None	Same	None	Same	None
Ireland	Same	Same, unless explicitly excluded in contract.	Same	Same, unless explicitly excluded in contract.	Same	Same, unless explicitly excluded in contract.
Israel	Same	None	Same	None	Same	None
Italy[f]	Termination is only allowed for just cause or for collective dismissals. The same procedures apply as for regular employees dismissed for these reasons.	None	Same (if termination is allowed).	Same layoff tax but no notice required.	Same (if termination is allowed).	None
Japan	Termination is only allowed for inevitable reasons.	None	Same	None	Same	None
Korea	Same	None	Same	None	Same	None
Luxembourg	Termination is only allowed for serious reasons such as the death or illness of the employer. In this case, the same procedures apply as for regular dismissals. Compensation for UNFD is for remaining contract period.	None	Same (if termination is allowed).	None	Same (if termination is allowed).[e]	None
Netherlands	Same	None	Same	None	Same	None
New Zealand	Same	Same	Same	Same	Same	Same
Norway	Termination allowed only if specified in the contract or collective agreement. In this case, same rules apply as for regular workers.	None	Same (if termination is allowed).	None	Same (if termination is allowed).	None
Poland	Termination with notice allowed if agreed in contract; termination without notice subject to same rules as for regular workers. Compensation for UNFD is for remaining contract period up to maximum of three months.	None	Two weeks' notice, regardless of tenure (for termination with notice).	None	No notification of trade union required.	None
Portugal	Same, compensation for UNFD is for remaining contract period	None	Severance pay: FTC < six months: three days' per month of service. FTC > six months: two days' per month of service.	15 days' notice required.	Same	15 days' notice required.
Slovak Republic	Same	None	Same	None	Same	None
Slovenia[g]	Same	None	Same	Same severance pay, with few exceptions.	Same	None

Table 4.4. **Costs and difficulty of dismissals of workers with standard fixed-term contracts as compared to regular contracts** *(cont.)*

	Difficulty of dismissal[a]		Notice and severance pay		Procedural inconvenience[b]	
	Before end date	At end date	Before end date	At end date	Before end date	At end date
Spain	Same	None	Same	Severance pay: 11 days per year of service (12 days in 2015).	Same	None
Sweden	Termination only allowed for gross misconduct by the employee (e.g. theft from the employer, violence in the workplace) unless termination is explicitly allowed in the employment contract.	None	Same as for gross misconduct in the case of a regular worker	One months' written notice required if FTC > 12 months' duration during three-year period.	Same as for gross misconduct for regular worker.	Written notification to the employee and trade union is required if FTC > 12 months' duration during three-year period.
Switzerland	Termination is allowed at any time for cause, during the trial period or if explicitly allowed in the employment contract.	None	Generally same (if termination is allowed) as for regular contracts; FTCs > ten years' duration can only be terminated with six months' notice.	None	Same (if termination is allowed).	None
Turkey	Same	None	Same	None	Same	None
United Kingdom	Same	Same	Same	Same redundancy pay.	Same	Same
United States[h]	Depends on the circumstance.	Depends on the circumstance.	Depends on the circumstance.	Depends on the circumstances.	Depends on the circumstance.	Depends on the circumstances.

Note: CA: collective agreement. FTC: standard fixed-term contract. UNFD: unfair dismissal.

a) Difficulty of dismissal includes definition of fair and unfair dismissal, compensation and the possibility of reinstatement following unfair dismissal, length of the trial period and the maximum time available after dismissal for an employee to make a claim of unfair dismissal.

b) Procedural inconvenience includes notification procedures (e.g. oral or written notice of dismissal) and the delay before the notice period can start.

c) In Austria, the employer and worker can contractually agree on circumstances and procedures for terminating FTCs before their end date.

d) In Canada, there is some variation in regulation across Provinces. The table reflects the situation most commonly found in the four biggest Provinces: Alberta, British Columbia, Ontario and Quebec.

e) In France, in the case of conversion of the contract into one of indefinite duration, the employer can receive a rebate for the social security contributions paid in excess of the rate for regular workers.

f) In Italy, if the worker is eligible for unemployment benefits, the employer must pay a contribution equal to 41% of the monthly unemployment benefit ceiling upon contract termination at its own initiative for each of the first three years of tenure (or fraction of it), no matter whether the contract is fixed-term or open-ended. In the case of conversion of the contract into one of indefinite duration, the employer can receive a rebate for the unemployment insurance contributions paid in excess of the rate for regular workers.

g) In Slovenia, the rate of employers' unemployment insurance contributions is higher for FTCs than for regular contracts. However, if a FTC is converted into an open-ended contract, then the employer is exempted from unemployment insurance contributions for up to two years.

h) In the United States, there are no regulations governing general contractual matters. If parties bargain for, and create, a contract for employment, the contract itself would state any conditions that would restrict termination at or before the end date. If a lawsuit is brought by the worker for breach of contract, the jurisdiction where the court is located may have its own body of case law that would serve as precedent for deciding the outcome of the case. Under certain circumstances an employer's oral or written assurances regarding job tenure can create an implied contract under which the employer cannot terminate employment without just cause. Only certain states in the United States recognise the "implied contract" exception to at-will employment and states follow their own case law. Court decisions with respect to wrongful termination of an implied relationship claims are made on a case-by-case basis.

Source: 2013 OECD EPL questionnaire; OECD (2013), "Detailed Description of Employment Protection Legislation, 2012-2013", *www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm*.

be higher for FTCs, so that employees with such contracts are better protected than those with a permanent contract for the duration of the contract, which can be, nonetheless, short. This is the case in Belgium, Estonia, Finland, France, Greece, Italy, Japan, Luxembourg, Norway and Sweden, where the grounds on which a FTC can be terminated before the end date are limited – unless specified otherwise in the contract in Finland, Norway and Sweden – or wages due for the remaining contract period, had the contract not been terminated, must be paid regardless of whether the dismissal is fair or unfair (only in cases of economic dismissal in Estonia). Additional costs do exist in many countries to compensate for unfair termination of FTCs before the end date.[22] By contrast, in Australia, terminating a FTC before the end date may be in fact less costly than dismissing a regular worker, since the fixed-term employee has no right to redundancy pay or advance notice – although the fixed-term employee may be compensated should termination be found to be unfair. Reduced notification requirements apply also in Poland for termination of a FTC before the end date.

The termination process of FTCs *at* the end date is usually easier than terminating workers with permanent contracts and almost at zero cost (or quite small, depending on national legislation). In the majority of OECD countries, there are no legal requirements governing dismissal at the end of the contract period. In Chile, Finland and Portugal, advance notice of dismissal at the end of the contract period is required, likewise for workers with contracts of more than 12 months in Sweden. In Austria, advance notification may be required in collective agreements. In addition, fixed-term employees in this country are eligible for receiving severance payments from their income provision fund under the same conditions as regular employees.[23] In France, Slovenia and Spain, fixed-term employees are entitled to severance pay, although at a reduced rate in France and Spain. In Italy, employers must pay a layoff tax in the form of a contribution to the first month of the unemployment benefit if the employee is eligible for that benefit, no matter whether the employee had an open-ended or fixed-term contract.

Apart from the United States, where employment at will prevails, Ireland, New Zealand and the United Kingdom are the only other countries where some or all workers with FTCs are entitled to nearly the same statutory protection against termination at the end of the contract period as workers with regular contracts. In Ireland, workers with FTCs are eligible for standard severance payments where they have been continuously employed for at least two years and are terminated either before or at the end date of the contract. Moreover, unfair dismissal rules applicable to workers with permanent contracts also apply to termination of FTCs (before and at the end date) unless specifically excluded in writing in the employment contract. In New Zealand, the way the contract will end (on a specific date or upon completion of an event or task) must be specified in writing at the onset of the contract. Termination of a FTC either before or at the end date is then subject to the same requirements as for terminating a permanent contract. In the United Kingdom, all workers are covered by unfair dismissal rules if they have tenure of at least one year. This includes workers with FTCs for termination both before and at the end date of the contract.[24] Similarly, FTC employees have the same right to redundancy pay as regular employees. By contrast, they are not entitled to a notice period if their contract is terminated at the end date.

High termination costs may provide an incentive to convert a FTC into an open-ended contract, but conversions can also be encouraged by fiscal measures. For example, in a few countries, governments have recently opted for fiscal mechanisms combining disincentives to use fixed-term contracts and tax rebates in the case of conversion of FTCs

at the end date to open-ended contracts. In Italy, the 2012 labour market reform has stipulated that employers must pay a modest 1.4 percentage-point higher rate of unemployment insurance contributions for workers hired on FTCs.[25] However, in the case of a conversion into an open-ended contract, this contribution is reimbursed. Similar mechanisms have been subsequently introduced in France and Slovenia. In France, in the case of FTCs of duration shorter than three months, employers must pay an additional contribution of between 4.5% and 7% of the gross wage (depending on the contract). In Slovenia, employers' unemployment insurance contributions for FTCs have been raised to 3% of the gross wage by the 2013 labour market reform, from 0.06% on all contracts before the reform. However, if a FTC is converted into an open-ended contract, then the employer is exempted from normal unemployment insurance contributions for up to two years.[26] No evaluation of these measures has been made for the moment.

For TWA contracts, the general rules on termination of FTCs apply in most countries if the agency wants to terminate the TWA contract with the employee *before* its end date (see Annex Table 4.A1.2).[27] For example, in France, termination before the end date of a fixed-term TWA contract is only allowed for serious reasons. Therefore, if the assignment is terminated by the user firm, the TWA must redeploy the worker or pay them for the remainder of the contract period. In other countries, however, termination of the assignment by the user firm is considered a justified reason for termination of the TWA contract, under the same rules and procedures applying to FTCs, if the contract is fixed-term. For example, in Hungary, breach of contract by the user firm can be used as a reason for termination, thereby waiving the TWA from the duty to pay compensation for absence of reason (see Table 4.3).

By contrast, there are few regulations restricting termination of the assignment by the user firm. In most countries, this is regulated in the same way as any commercial contract. Thus, the acceptable reasons for terminating the contract between the user firm and the agency can be any that are outlined in the contract between the two contracting parties (the agency and the user firm). As a consequence, depending on the provisions in these contracts, terminating their relationship with TWA workers may be much easier for user firms than terminating the contract of their regular employees.

Dependent self-employed workers

As discussed in Section 1, DSEWs represent a non-trivial share of dependent employment. As DSEWs are not employees, the labour standards or other protection conferred by labour law are not normally applicable to them. To the extent that the conditions for terminating a commercial relationship are far less strict than the conditions concerning termination of an employment contract, this category of workers has *de facto* the lowest degree of job protection of all dependent workers. In addition, in countries where social security regimes – in terms of either financing or benefits or both – differ between employees and self-employed workers, employers of DSEWs typically pay no or lower social security contributions, while these workers are covered by a less generous level of benefits than employees. These two facts constitute a powerful incentive for companies to use these types of contract for at least part of the labour services they need, which can explain their significant share in a number of countries.

Given the special nature of DSEWs, some of the protection rights that are normally applicable to employees have been conferred on them in a few countries by creating hybrid statuses of employment. However, in most cases, these extensions of rights concern only

social protection, while termination of contracts remains strictly regulated by commercial law. The United Kingdom, Italy and the Czech Republic are among the few exceptions as regards labour law (see Kim, 2014). In particular, in the United Kingdom, the statutory category of "worker" defines any individual who works under a contract to provide a personal service, independently of whether he/she has a contract of employment. These "workers" are entitled to protection against discrimination under the Equality Act 2010 – implying also a right to equal treatment in basic working conditions. In addition, they are covered by selected labour regulations including those on working time and the minimum wage. However, protection against unfair dismissal and eligibility to redundancy pay, as stipulated in the Employment Rights Act 1996, does not cover DSEWs (see e.g. Eichhorst et al., 2013). In Italy, one important category of DSEWs are the "collaborators" – dependent workers employed for a specific project with contract for services by one employer who is bound to pay social security contributions – although at a reduced rate. Rules for termination of these contracts differ from those of commercial contracts and closely resemble those of employees holding a standard FTC (see above): except in the case of fault, *force majeure* or manifested lack of worker capacity, termination at the initiative of the employer is not possible before full completion of the project (see Box 4.3). In the Czech Republic, a worker and an employer can conclude an agreement to perform work that cannot last more than 300 hours in a single calendar year. The Czech labour code grants workers under these contracts specific rights (such as to maternity and parental leave) and, when a termination before the end date is possible, the right to a 15-day notice period, except in cases in which immediate termination is generally permitted also for employees (e.g. fault or *force majeure*).[28]

In practice, therefore, the greatest source of employment protection for DSEWs relies on the legal instruments that courts have to distinguish between *real* self-employment and *misuses* of such status masking relationships that imply worker subordination and, therefore, an employment relationship.[29] However, as discussed in Section 1, establishing subordination is difficult and a wide array of legal instruments has been developed by many OECD countries for the judicial review of contracts for services by courts. In civil-law countries,[30] the strongest type of instrument is a refutable legal presumption of an employment relationship in specific circumstances. In other words, if specific conditions are met, an employment contract is presumed, and the burden of proving that this is not the case is shifted to the employer. In certain countries, this legal presumption is essentially restricted to particular professions, such as sales representatives (e.g. Austria, Belgium and France). By contrast, in a few other countries, labour laws establish a refutable legal presumption of an employment relationship under very general conditions. For example, in Greece and the Netherlands, if the provision of labour services by a single individual occurs regularly for a sufficiently long period of time, then the worker is presumed to be an employee. In Mexico, an employment relationship is presumed between a person who provides a labour service and the person or organisation which commissions this service. In Estonia and Switzerland an employment relationship is presumed if the labour services provided by the worker could reasonably be expected only in exchange of a salary. In many other civil-law countries, labour laws list a number of conditions that, if they are met, establish a refutable presumption of *de facto* subordination requiring the contract for services to be requalified as an employment contract (e.g. Chile, the Czech Republic, Italy, Poland, Portugal, the Slovak Republic, Slovenia, Spain). In common-law countries and the Nordic countries – as well as a few other countries such as

Box 4.3. **Italian collaborators and the 2012 labour market reform**

The possibility of hiring workers for doing specific tasks under a contract for services has been explicitly allowed in the Italian Civil Code since 1942 (cf. Article 2222). In principle, however, the use of a contract for services requires the absence of subordination, even when the relationship between the independent contractor and the customer is characterised by continuity over time. Given the difficulty of identifying subordination within continuous relationships, the 1995 social security reform introduced, for an extended list of job profiles, the obligation for the customer/employer to pay part of the social security contributions due by the worker as self-employed when the relationship between the employer and the worker can be considered as a "continuous collaboration" (cf. Act 335/1995, Article 2, better-known as the "Dini reform").

In practice, the 1995 reform recognised the possibility of using contracts for services for relationships with some limited degree of subordination, thereby giving rise to a specific contract of continuous and co-ordinated collaboration with its own specific social security regime. As the reform set the rate of social security contributions at a very low level (10% of gross compensation, two-thirds of which to be paid by the employer), and the legal regime was clarified, these contracts flourished in the second half of the 1990s (see Berton et al., 2005). Initially, they were admitted only for non-manual jobs, but this limitation disappeared in 2001.

In 2003, a new reform (Legislative Decree No. 276/2003, better-known as the "Biagi reform") regulated these contracts further by imposing that they could not concern tasks that were normally undertaken by the firm's employees and that they had to be linked to a pre-specified project or parts of it. In practice, however, enforcement of these rules proved difficult since it allowed employers to define the "project" as their main branch of activity, with the employer and the collaborator as contributing to parts of it (Ministero del lavoro e delle politiche sociali, 2012). The 2012 labour market reform (Act 92/2012, better-known as the "Fornero reform") addressed these issues by clarifying that the project must be self-contained and cannot be simply reduced to a part of another, larger project. More important in terms of job protection, employers can now rescind these contracts before their end date *only* under the same conditions of other fixed-term contracts. In fact, while before the reform the parties could stipulate clauses allowing the employer to rescind the contract with no notice and no compensation (a possibility under the civil code), this is now forbidden. In addition, social security contributions have been increased on new contracts of collaboration, and they are scheduled to equalise those on employment contracts by 2018.

Overall, the 2012 labour market reform appears to have made it significantly less convenient for firms to use collaborators. This prediction seems largely confirmed by the early evidence, which suggests that hiring firms are less frequently resorting to this type of contract (Cappellini et al., 2014). Nonetheless, a rigorous evaluation has not been published yet.

Germany and Japan – there is no explicit legal presumption, but courts apply consistently a number of precise legal criteria[31] and often enforcement institutions publish public guidelines concerning these tests in order to prevent misclassification by simple mistake and discourage wilful abuses (e.g. in Australia, Ireland or many US states; see OECD, 2014b, for more details on the legislation of each country).[32]

As in most cases of labour law, avoiding concealment of an employment relationship mostly relies on the concerned worker lodging a complaint with the courts. Only in a few countries, does the labour authority have some power to enforce compliance with the labour law as regards the employment relationship. However such power is usually limited and does not include the possibility of ordering a civil remedy or taking a claim to court without the consent of the aggrieved worker. In Australia, Chile, Poland, Spain and the United States, however, the labour authority can seek for a civil remedy on behalf of the aggrieved workers even in the absence of consent, particularly in cases where an important public interest is concerned. More often, the tax and social security authorities can directly impose a rate of tax or social security contributions on the employer based upon their own assessment of the employer-worker relationship and impose fines or seek for criminal penalties in courts for fraud or grave abuses. However, this does not mean that the opinion of the tax or social security authority is necessarily binding for courts. In fact, the mere fact that a person is treated as a self-employed worker under tax codes and social security laws, for example because of enrolment in the business registry, does not prevent the possibility that he/she could be considered as an employee by a labour court. Nevertheless, certifications produced by the tax authority are often important pieces of evidence in courts, particularly when issued taking labour laws into account. For example, in Ireland, any person, business, or their representatives, may apply to the relevant section of the Department of Social Protection to have an employment relation investigated in order to make sure that the correct social insurance category is being applied to a worker and to decide whether the worker status is that of an employee or a self-employed. After investigating the nature of the employment and based on legal principles handed down in case law, the Department of Social and Family Affairs can issue a written decision that, albeit decisive only for social welfare purposes, is nonetheless indicative of the employment status. Similarly, in the Netherlands, the worker can request a Declaration of Independent Contractor Status from the Tax Authority, which is based on an assessment of whether the workers' activities must be considered as those of a self-employed or those of an employee in the sense of the Dutch civil code. In Denmark, the fact that a worker is determined as an employee by the tax or social security authority gives rise to a sort of refutable presumption of an employment relationship in civil litigation (see the OECD, 2014b; and Kim, 2014, for more details).

3. From protection to security: Exploring disparities in job security across contracts

The key finding of the previous section is that there are wide disparities in statutory rules for termination of employment between regular and non-regular workers. But are non-regular jobs effectively more precarious, as differences in regulations would suggest? And to what extent do non-regular contracts represent only a temporary phase in the career of a worker, such as the initial foothold in the labour market for first-time jobseekers? These questions will be analysed in this section.

Patterns of job security linked to contractual arrangements

One way to analyse differences in job security across contracts is to look at the risk of unemployment. In a recent OECD study (OECD, 2014a), the effect of contract type on the probability of one-year individual transitions from employment to unemployment was estimated for a sample of 17 OECD countries, using a dynamic probit model and controlling for a large number of co-variates and unobserved heterogeneity.[33] The results,

presented in Panel A of Figure 4.9, show that the probability of being in unemployment one year later is significantly higher for non-regular employees than for full-time permanent employees in about two-thirds of the countries for which comparable data are available. The estimated differences are often substantial: in about one half of the countries they exceed 2 percentage points, a figure that appears indeed very large if compared with average raw transition rates for all employees (independent of the contract type) that are in general quite low – ranging between 0.9% for the Netherlands and 6.6% in Spain. The same pattern is also found for transitions towards inactivity, estimated using the same methodology (Figure 4.9, Panel B). In about half of the countries for which comparable data are available, the probability of becoming inactive one year later is significantly greater for non-regular employees than for full-time regular workers.

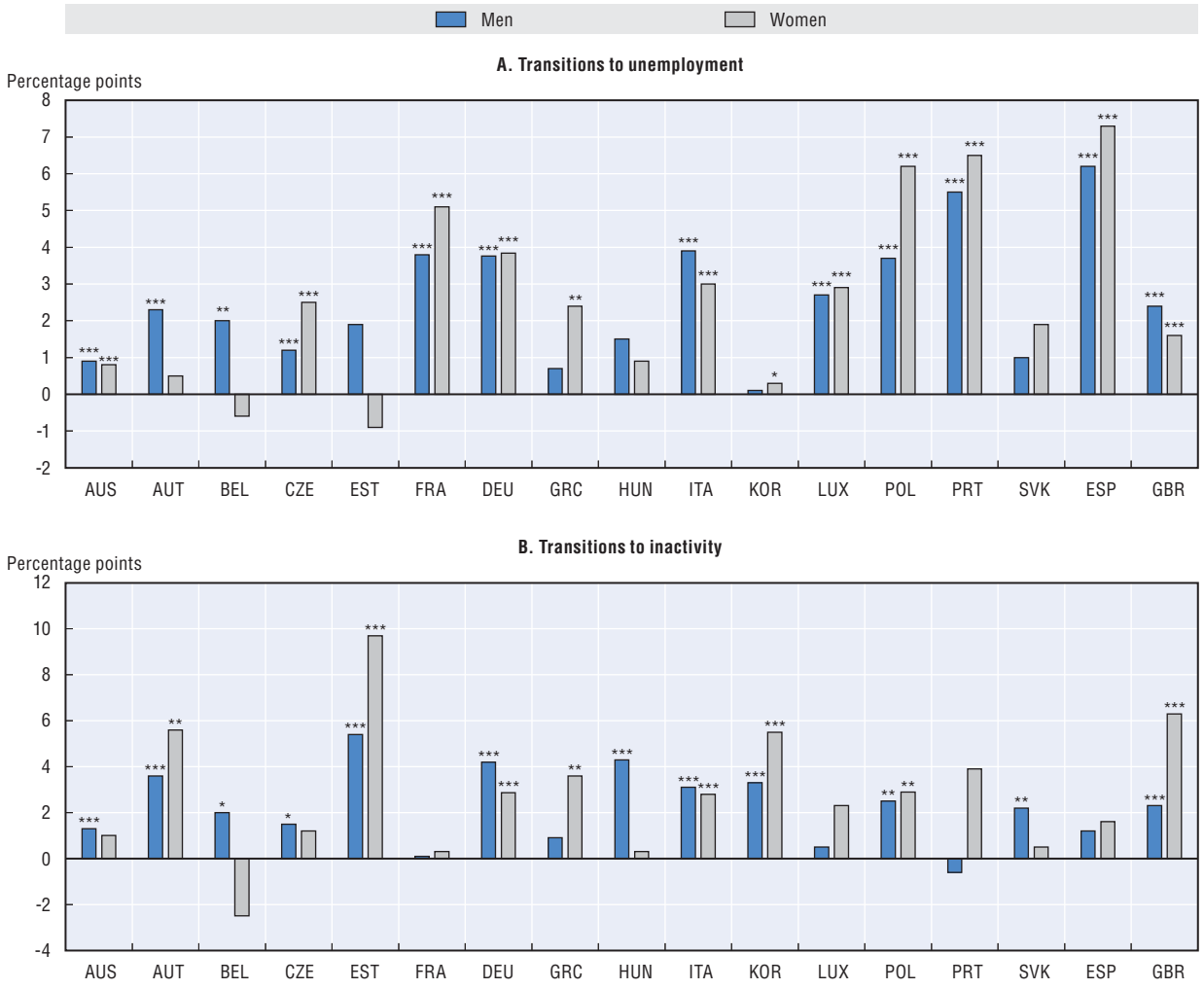
A more complete way to assess cross-contract differences in job security is to look not only at the risk of unemployment but also at the length of the unemployment spell following contract termination and the earning loss during that spell. This approach is followed in Chapter 3. The main results are broadly consistent with those presented in Figure 4.9 above and confirm that non-regular workers are usually in a more precarious position. Even if unemployment spells of workers who entered unemployment after termination of a temporary contract are often shorter than those of displaced permanent employees, the probability of job loss of temporary workers is much higher. As a consequence, the expected cumulated time in unemployment is much longer for temporary than for permanent employees.

Another way to investigate how job security varies across contractual arrangements is by looking at the perception of job security across workers by contract type. Obviously, caution is required in interpreting these data because perceptions are subjective assessments likely to be affected by cultural and personal traits, and do not necessarily reflect commensurate differences in effective situations. Moreover, workers might sort into contract according to their preferences, which might bias cross-contract comparisons. However, in this case, cross-contract differences in perceived job security are likely to be underestimated, since less risk-adverse individuals are likely to sort into precarious contracts. In any case, subjective assessments have typically been found to be a very good predictor of effective situations, which suggests the validity of the former as complementary evidence for the latter[34] (see e.g. Clark et al., 2005; Clark and Postel-Vinay, 2009; and Chapter 3 for further discussion). The key advantage is that differences in perceived job security across types of contracts can be examined by relying on the 2010 European Working Conditions Survey, which – as discussed above – allows for a distinction to be made between DSEWs, TWA workers and other employees with fixed-term contracts.

Figure 4.10 presents cross-contract comparison of three different measures of subjective job security: perceived risk of job loss; perceived re-employment probability subject to job loss; and perceived risk of costly job loss. Workers with a high perceived risk of job loss are defined as those who agree or strongly agree that they may lose their job in the six months following the interview; those with a low perceived re-employment probability are those who do not agree or strongly disagree that if they lose their job they can easily find another job with a similar salary; and those with a high perceived risk of costly job loss are those with high perceived risk of job loss and a low perceived re-employment probability. The comparison across contract types is performed controlling for country dummies and a wide range of observable characteristics that are likely to capture personal and cultural traits, thereby making the analysis of subjective assessments more informative.[35] On average, about 19% of

Figure 4.9. **Impact of contract type on one-year transition probabilities from employment to unemployment and inactivity**

Estimated difference between non-regular and permanent employees, percentage points



Note: Panel A reports the percentage-point difference in the probability of being unemployed one year later between non-regular and full-time permanent employees. Panel B reports the percentage-point difference in the probability of being inactive one year later between non-regular and full-time permanent employees. Estimates are obtained through a random-effect probit model controlling for six initial employment statuses (full-time permanent, part-time permanent, non-regular employees, unemployed, inactive and self-employed), household income, and dummies for three age classes, three education levels, married status, children below 13 years and bad health conditions as well as region and time dummies. Casual workers are classified as non-regular employees.

***, **, *: significant at the 1%, 5%, 10% level, respectively – based on robust standard errors.

Source: OECD (2014), *Job, Wages and Inequality*, OECD Publishing, Paris, forthcoming, based on the British Household Panel Survey (BHPS) 1992-2008 for the United Kingdom, the German Socio-Economic Panel (GSOEP) for Germany, the European Union Statistics on Income and Living Conditions (EU-SILC) 2004-09 for other European countries, the Household Income and Labour Dynamics (HILDA) 2001-09 for Australia and the Korean Labour and Income Panel (KLIPS) 1999-2008 for Korea.

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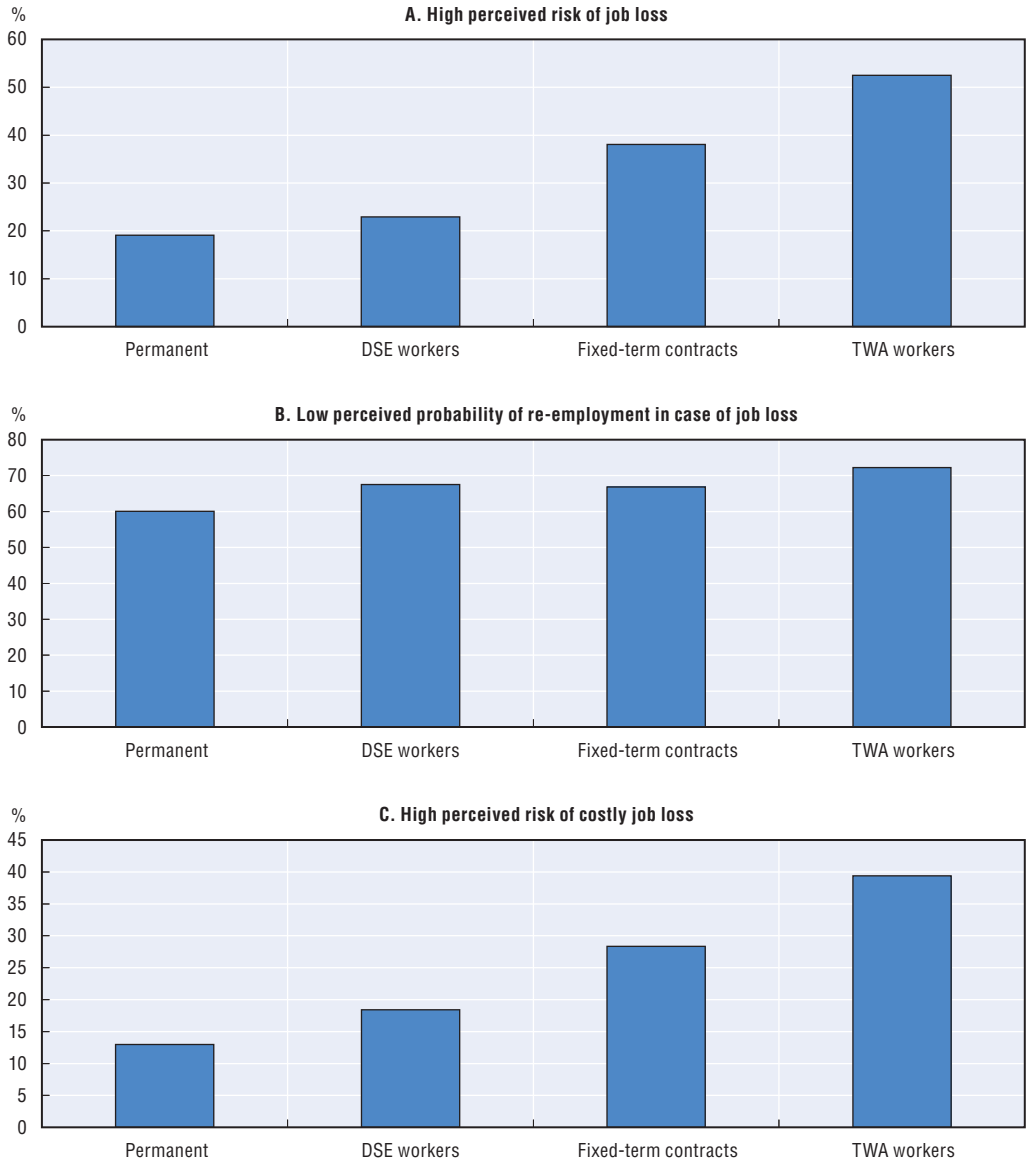
regular employees perceive they face a high risk of job loss (Figure 4.10, Panel A). Employees on standard fixed-term contracts or TWA employment are much more likely to feel insecure about their jobs – 38% and 52%, respectively. The high figure for TWA workers most likely reflects the typical short duration of TWA assignments. Perhaps surprisingly, only 23% of DSEWs agree that they may lose their job in the following six months. This suggests that circumventing EPL is unlikely to be the main reason why this contractual form is chosen but instead is more related to the lower tax wedge associated with these contracts.

Figure 4.10. **Perceptions of job insecurity by type of contract**

Percentage of workers in each category, 2010



Note: Panel A reports the estimated percentage of workers of each type of contract who agree or strongly agree that they may lose their job in the six months following their interview. Panel B reports the estimated percentage of those who do not agree or strongly agree that if they lose their job they can easily find another job with a similar salary. Panel C reports the estimated percentage of those who agree or strongly agree that they may lose their job in the next six months but do not agree or strongly agree that they can easily find another job with a similar salary. Reported rates for permanent workers are averages of the raw responses. For each other type of contracts, the difference with permanent contracts is estimated on the basis of a linear probability model with dummies for gender, country, nine age classes, three education levels, nine occupations, 21 industries, nine tenure classes, nine firm-size classes and an unemployment spell before the current job spell. The estimated difference is then added to the average for permanent workers. The sample excludes workers with more than eight years of job tenure.
DSE: Dependent self-employed; TWA: Temporary work agency.
Source: OECD estimates based on Eurofound (2010), "5th European Working Conditions Survey (EWCS)", *www.eurofound.europa.eu/working/surveys/*.

StatLink http://dx.doi.org/10.1787/888933132735

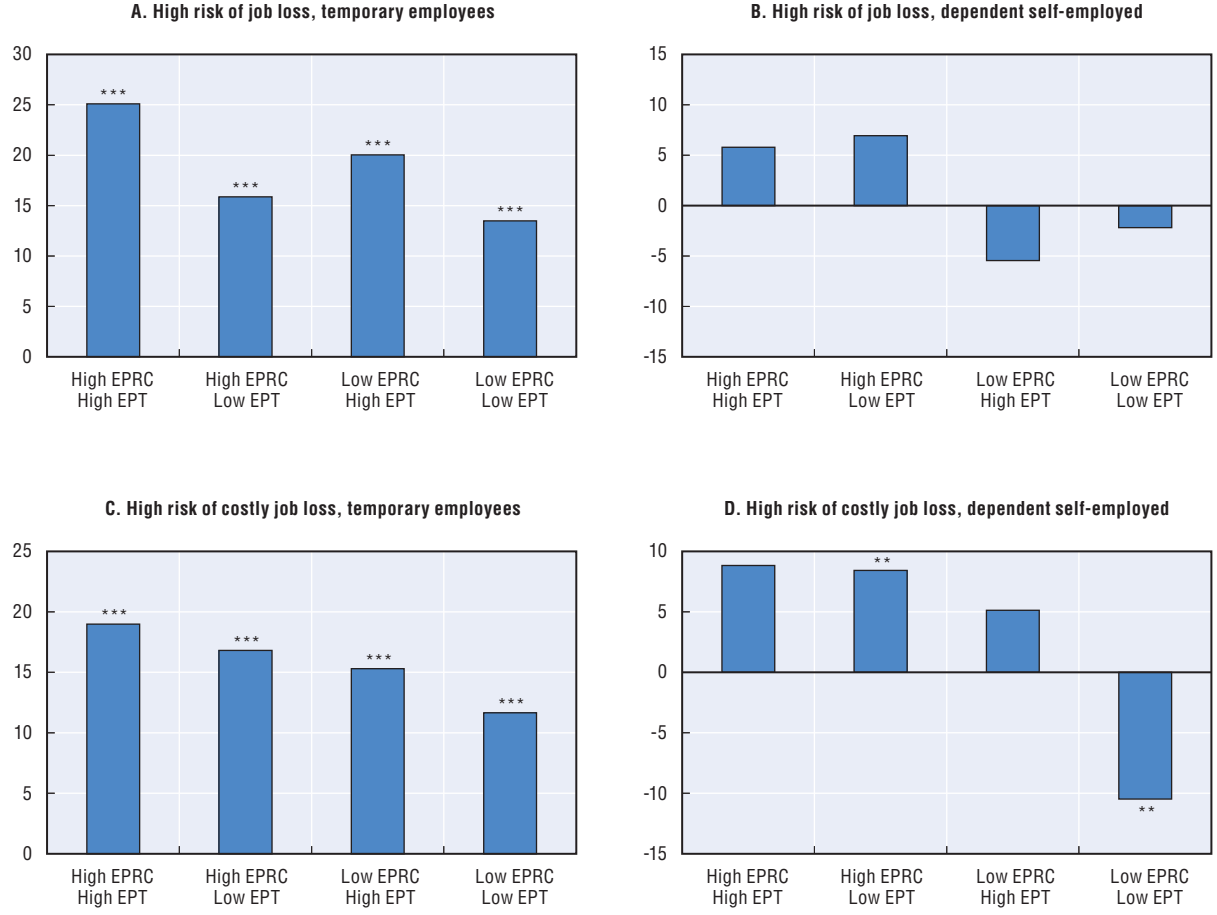
As discussed above (and in Chapter 3), the probability of job loss is just one of the multiple facets of job insecurity. The rate at which another job can be found and the likely conditions of the new job should also enter into the assessment of job security. Interestingly, workers' perceptions of the probability of finding an equivalent job are similar across contracts, with permanent employees only slightly better off (Figure 4.10, Panel B). Indeed about 60% of these workers disagree or strongly disagree that if they lose their job they can easily find another job with a similar salary, against 67-72% for FTC, TWA and DSE workers. Combining these two pieces of information together, one obtains a rough measure of the overall perception of job insecurity. Panel C of Figure 4.10 shows that only 13% of permanent employees perceive that they have a high risk of costly job loss, against 18% of DSEWs, 28% of fixed-term employees and 39% of TWA workers.

The empirical literature suggests that strict EPL for regular workers increases churning of temporary jobs (see below). It has been argued therefore, that stringent dismissal regulations also reduce job security of temporary workers because when staff adjustment is difficult among permanent workers, temporary contracts are used as a buffer against business fluctuations. As a result, job loss will be more frequent and jobless spells longer among temporary workers when firing rules are restrictive. By contrast, the role of hiring regulations has been much less investigated. The role of both types of regulations is examined in Figure 4.11. Countries are divided into four groups according to whether they are above or below the sample average of the OECD EPL indexes for individual and collective dismissal of regular workers (EPRC) and for scope and duration of temporary contracts (EPT). Then, for each country group, differences by contract type in the probability of perceiving high risk of job loss and that of perceiving high risk of costly job loss are estimated, using the same specification as for Figure 4.10, to control for cultural and personal traits as captured by the perceptions of regular workers in a given country and with given characteristics.[36]

As regards DSEWs, Figure 4.11 tends to confirm that the more rigid the regulations for permanent contracts, the greater the difference between the level of job security perceived by DSEWs and that perceived by permanent workers, in particular when the difficulty of re-employment is also considered – i.e. when the perceived risk of costly job loss is used as a measure of job insecurity.[37] Nevertheless, in all cases, DSEWs appears to perceive greater job security than temporary employees, no matter the EPL configuration. These findings suggest therefore that, in countries with restrictive dismissal regulations for regular contracts, firms may effectively use DSEWs as a buffer of adjustment, but probably less so than they use temporary employees for the same reason. In other words, circumventing EPL is likely to have some importance as a reason for using contracts for services only in countries where this legislation is restrictive, although other reasons remain important. Consistent with this view, the evidence for a pattern of substitution between temporary employees and DSEWs mentioned in Section 1 appears stronger when looking only at countries with above-average index of regulations for permanent workers (EPRC index). Indeed the cross-country correlation of the incidence in temporary workers and DSEWs (cf. Table 4.1 and Figure 4.4) is as high as -0.54 among these countries (conditional to the exclusion of Luxembourg). This suggests that in countries with restrictive EPL for regular workers, contracts for services and fixed-term employment contracts are used as alternative instruments of flexibility.

Figure 4.11. **Perceptions of job insecurity for non-regular workers in high and low EPL countries**

Estimated percentage-point effect of holding a non-regular contract on the probability of perceiving job insecurity, by country group, 2010



Note: Panel A reports the estimated percentage-point effect of holding a temporary contract on the probability of perceiving a high risk of job loss. Panel B reports the estimated percentage-point effect of being a dependent self-employed on the probability of perceiving a high risk of job loss. Panel C reports the estimated percentage-point effect of holding a temporary contract on the probability of perceiving a high risk of costly job loss. Panel D reports the estimated percentage-point effect of being a dependent self-employed on the probability of perceiving a high risk of job loss. In computing these effects, the probabilities for regular workers are taken as benchmark for comparison. Workers are defined as perceiving a high risk of job loss if they agree or strongly agree that they may lose their job in the six months following their interview. They are defined as perceiving a high risk of costly job loss if they agree or strongly agree that they may lose their job in the next six months but do not agree or strongly agree that they can easily find another job with a similar salary. For each type of contract, the difference with permanent contracts is estimated on the basis of a linear probability model controlling for dummies for gender, country, nine age classes, three education levels, nine occupations, 21 industries, nine tenure classes, nine firm-size classes and an unemployment spell before the current job spell. The estimated difference is then added to the average for permanent workers. High (low) EPRC indicates countries that are above (below) average for the indicator for strictness of regulation on dismissal for regular contracts in 2010. High (low) EPT indicates countries that are above (below) average for the indicator for strictness of regulation on scope and duration of temporary contracts in 2010. High EPRC/High EPT: Belgium, France, Greece, Italy, Luxembourg, Portugal, Slovenia and Spain; High EPRC/Low EPT: the Czech Republic, Germany, the Netherlands and the Slovak Republic; Low EPRC/High EPT: Estonia, Norway, Poland and Turkey; Low EPRC/Low EPT: Austria, Denmark, Finland, Ireland, Hungary, Sweden and the United Kingdom. The sample excludes workers with more than eight years of job tenure. Standard errors are adjusted by clustering on country by contract type.

***, **: significant at the 1%, and 5% level, respectively.

EPL: Employment protection legislation; EPRC: Strictness of employment protection for individual and collective dismissals (regular contracts); EPT: Strictness of employment protection for temporary contracts.

Source: OECD estimates based on Eurofound (2010), "5th European Working Conditions Survey (EWCS)", *www.eurofound.europa.eu/working/surveys/*.

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In the case of temporary employees, their degree of perceived job security not only depends on the stringency of EPL for regular contracts but even more on the strictness of regulation regarding scope and duration of temporary contracts.[38] More precisely, while the estimated probability of perceiving that they have a high risk of job loss is 13 percentage points higher for temporary employees than for regular workers in countries with both below-average EPRC and EPT indexes, it is only slightly higher (16 percentage points) in countries with above-average EPRC index but below-average EPT index. Conversely, this probability is 20 percentage points higher in countries with below-average EPRC index and above-average EPT index, and 25 percentage points higher in countries that are above average for both indicators. These estimated differences appear quite large if compared with the share of permanent workers who perceive that they have a high risk of job loss (see Figure 4.10).[39] These findings are confirmed by econometric estimates in which quantitative indicators of EPL are interacted with dummies for contract type[40] (see OECD, 2014b).[41]

By contrast, both types of regulation appear equally important for the perceived risk of costly job loss of temporary employees. In fact, the probability of perceiving that they have a high risk of costly job loss is 12 percentage points higher for temporary employees than for regular workers in countries with below-average EPRC and EPT indexes, 17 percentage points higher in countries with above-average EPRC and below-average EPT indexes, 15 percentage points higher in countries with below-average EPRC and above-average EPT indexes, and 19 percentage points higher in countries where both indexes are above the average.[42]

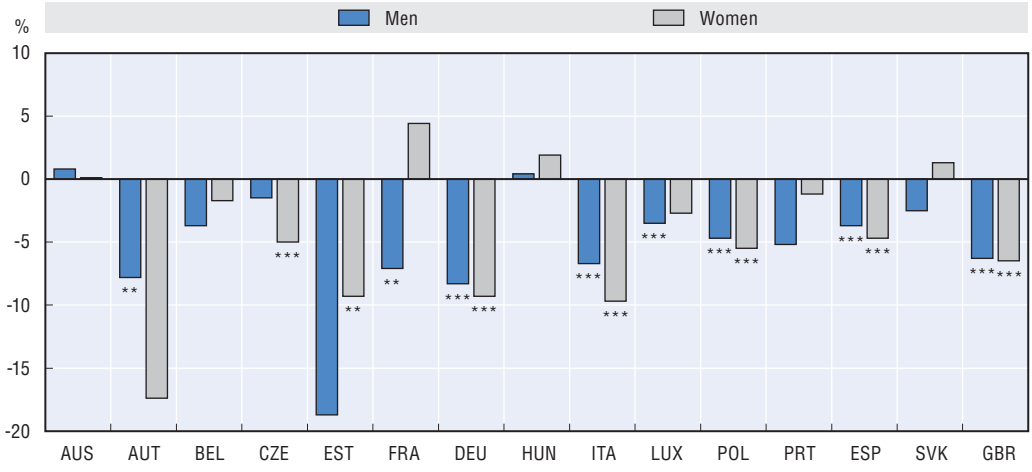
The fact that the legislation for regular contracts appears more important for job security when re-employment probabilities are taken into account is probably not surprising, since it reflects the fact that restrictive regulations depress any type of hiring. By contrast, the key role of regulations concerning temporary contracts as regards the perception of the risk of losing one's job within six months from the survey date might look more surprising. However, regulations limiting the duration of temporary contracts – by shortening their maximum duration and/or making renewals difficult – inevitably reduce the job spells of temporary workers whose contract is not converted into an open-ended one. Therefore, while attaining the objective of reducing the use of these contracts – and perhaps also of increasing conversion rates for some – these regulations might have the adverse consequence of increasing the degree of job insecurity for those temporary employees who have limited perspectives of conversion. This interpretation seems to be confirmed by econometric estimates in which quantitative indicators of EPL are interacted with dummies for contract type (see OECD, 2014b). Indeed, when two separate EPT indicators are constructed (one covering duration/renewal of contracts and another covering other aspects of regulation[43]), the only EPT indicator that is significant for the perception of the risk of job loss by fixed-term employees is the one concerning regulations on contract duration.

Obviously the lower level of job security of non-regular contracts could reflect differences in preferences, with less risk-averse individuals sorting into temporary jobs if the latter are better paid.[44] Indeed, there is evidence that workers are ready to trade off lower wages against greater job security. For example, Böckermann et al. (2011) show evidence that Finnish establishments with more churning also pay higher wages, and yet they find no unconditional effect of churning on job satisfaction.[45] Similarly, Bassanini et al. (2013) show that the wage gap between family and non-family firms in France can be entirely explained by the lower propensity of the former to dismiss their workers. In the case of temporary

workers, some studies find a small wage premium for holding a temporary contract in very specific jobs (such as nurses, IT programmers, and high-paid jobs in general; see e.g. Theodore and Peck, 2013; and Bosio, 2014) or for specific categories (young workers at the beginning of their career; see e.g. Böheim and Cardoso, 2009). More generally, however, the evidence suggests that there is a wage penalty for temporary workers or, at least, no evidence of a wage premium (see OECD, 2014a, for further references). In Figure 4.12, fixed-effect estimates of the wage gap between full-time regular and non-regular employees are presented. These estimates are consistent with the findings of this literature. In two-thirds of the 15 countries for which data are available, holding a non-regular contract is associated with a significant wage penalty for either full-time men or women or both. In only two countries (Australia and Hungary), the wages of both male and female non-regular employees appear to be no smaller, on average, than those of their peers with a regular contract. Overall, it would appear that there is no evidence that non-regular workers are compensated for their lower job security through higher wages.

Figure 4.12. **Wage penalty for non-regular employees**

Estimated wage difference between full-time non-regular and permanent employees



Note: The figure reports the estimated average difference in hourly wages between non-regular and permanent employees working full-time, expressed in percentage of the wage of the latter. Estimates are obtained through a fixed-effect linear model of log hourly wages controlling also for dummies for five age classes, three education levels, married status, children below 13 years and bad health conditions as well as region and time dummies. Casual workers are classified as non-regular employees.

***, **: significant at the 1% and 5% levels, respectively.

Source: OECD (2014), *Job, Wages and Inequality*, OECD Publishing, Paris, forthcoming, based on the British Household Panel Survey (BHPS) 1992-2008 for the United Kingdom, the German Socio-Economic Panel (GSOEP) for Germany, the European Union Statistics on Income and Living Conditions (EU-SILC) 2004-09 for other European countries, the Household Income and Labour Dynamics (HILDA) 2001-09 for Australia and the Korean Labour and Income Panel (KLIPS) 1999-2008 for Korea.

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Are temporary jobs "stepping-stones" or "traps"?

The disparities identified in the previous subsection suggest that, on average, non-regular jobs tend to display worse outcomes in terms of job security and wages, even though the situation differs across countries and across contracts. It is therefore important to investigate the dynamics of individual careers and examine whether such disadvantages are persistent (from a life-cycle perspective) and whether non-regular jobs have any scarring effects.

One prominent question in the literature looking at the dynamics of career trajectories transiting through non-regular contracts is whether temporary jobs are "stepping stones" into more stable employment. For unemployed workers, and in particular young inexperienced workers, does accepting a temporary job offer increases the chance of eventually finding a stable position? Or would it be better to stay unemployed and keep on searching directly for a permanent job? The dual of this question is: does accepting a temporary job offer lock individuals into non-regular forms of employment, thereby transforming temporary contracts into a "trap"? On the one hand, by leaving quickly unemployment through a temporary job, workers acquire labour market experience, access informal networks and improve their human capital – or at least avoid its deterioration. Moreover, as suggested by Cockx and Picchio (2012), by accepting a short-term job, a worker could also signal his/her motivation. In addition, repeated temporary contracts could give workers multiple experiences, thereby enhancing the probability of better and more stable matches in the future. On the other hand, accepting temporary job offers can crowd out efforts to search for more stable positions, thereby delaying entry into a permanent job. Accepting a short-term contract may also signal low ambition or less productive skills. Besides, given that temporary job spells are shorter, temporary workers might find it difficult to qualify for unemployment benefits at the end of their contract, thereby suffering from a more binding financial constraint when searching for the subsequent job. Therefore, as suggested by Berton and Garibaldi (2012), to the extent that finding another temporary position is easier, workers entering into unemployment after a temporary job might have a stronger incentive to take up the first, possibly temporary, offer they receive, thereby ending up chaining together multiple spells of non-regular jobs.[46] Moreover, temporary workers, by spending more time out of employment, are likely to accumulate less work experience, thereby falling behind permanent workers over time. Finally, the literature on training have often argued that a temporary worker tends to receive less employer-sponsored training because the expected duration of his/her job spell is shorter and therefore the employer has less time to recoup the cost of training (see e.g. Booth et al., 2002; Bassanini et al., 2007). Nonetheless theoretical predictions on the impact of the expected job spell on firm-sponsored training are ambiguous, since training might also be used as a screening device for temporary workers (Autor, 2001) and firms that have a reputation for providing good training opportunities might find it convenient to hire temporary workers and provide them with general training,[47] to the extent that they can attract better workers even if for a limited period of time (Moen and Rosen, 2004).

One way to look at these issues is to compare the estimated transitions from non-regular to permanent contracts with the estimated transitions from unemployment to regular contracts.[48] For example, controlling for individual heterogeneity, OECD (2014a) finds that, in all of the countries displayed in Figure 4.9 above except France, the probability of being in full-time permanent jobs in a given year is significantly greater for workers that one year before were on temporary jobs than for those that were unemployed.[49] However, this approach does not take into account the time unemployed workers have spent searching for a job before accepting a temporary job offer. Indeed, most of the recent studies on this question look at pools of unemployed at a given point in time and investigate the effect of having accepted temporary employment – rather than having remained unemployed and kept on searching for permanent jobs – on the probability of being in regular job several months or years later, with more nuanced results. In fact, while

Heinrich et al. (2005) find that Missouri and North Carolina welfare recipients participating in welfare-to-work programmes who were placed on TWA jobs earned much more and had a greater probability of not being on welfare than those who did not take up a job over the subsequent two years, other studies have reached less clear-cut conclusions. For example, using propensity-score matching estimators to control for observable heterogeneity, Hagen (2003) finds that, in Germany, entering into a fixed-term contract at a given date rather than continuing to search for a permanent job increases the probability of subsequently holding a permanent contract after two years but the effect disappears after four years. De Graaf-Zijl et al. (2011) estimate a multi-state duration model for unemployed Dutch workers and find no significant differences in the probability of moving into a regular job within 72 months after entering unemployment between those who, at some point in time, took up a temporary employment job and those who did not. However, they estimate that temporary employment has a positive effect for immigrants. Using a similar methodology, Kvasnicka (2009) and Jahn and Rosholm (2014) examine the effect of TWA employment on transition into regular employment in Germany and Denmark, respectively. The German study finds that accepting a TWA employment does not increase the subsequent chances of getting a permanent job for unemployed German workers up to two years following assignment. The Danish study finds that TWA employment helps workers finding a permanent job during the TWA assignment but its effect disappears in the post-assignment period – except in the case of immigrants (see also Jahn and Rosholm, 2013) – and even becomes even negative for women. Similarly, Casquel and Cunyat (2008) estimate a duration model for fixed-term employment using Spanish data and find that fixed-term contracts lead to permanent positions only in the case of the high educated but not for youth, women and low-educated workers.

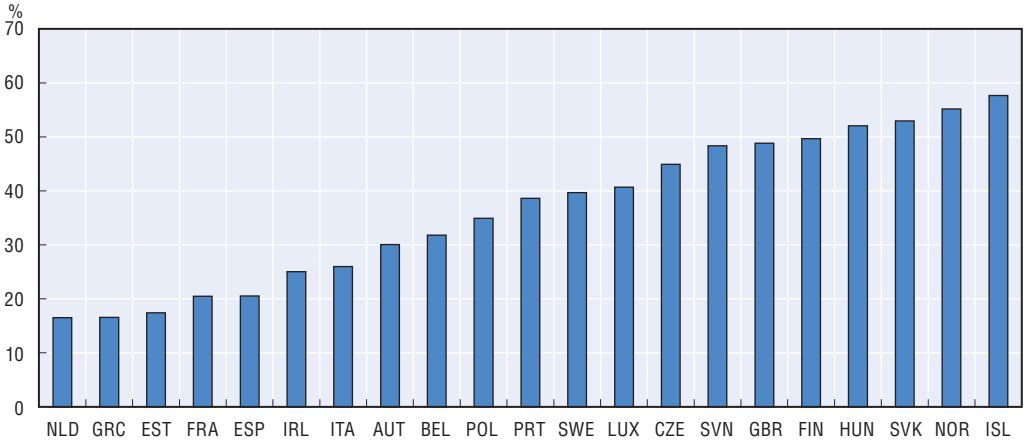
Overall, with few exceptions, the recent empirical literature seems to suggest that, at least for large groups of workers, accepting a temporary job offer does not reduce – and sometimes slightly increases – the chances of obtaining a permanent position later on. This is consistent with the fact that temporary contracts are far more prevalent among youth, while their incidence is much smaller for prime-age workers in most OECD countries (see Section 1 above), suggesting that a large number of young entrants in the labour markets experience an initial temporary contract but then manage to transit to more stable positions. As argued by Autor and Houseman (2010), however, the studies mentioned above are unable to control for all the sources of heterogeneity. In particular, the motivations pushing individuals to accept or not a temporary job offer are likely to be connected with individual characteristics that will eventually determine their labour market trajectories. Instrumental variables are required to control for this source of unobservable heterogeneity. Autor and Houseman (2010) exploit the random rotational assignment of welfare clients to nonprofit contractors in the Detroit's welfare-to-work programme, which allows them to use the different propensities of contractors to rely on temporary-help and direct-hire placements as an instrument for subsequent labour market performance. They find that in the first seven quarters following the programme, workers placed on TWA jobs performed significantly worse in terms of employment and earnings than those on direct-hire and those who took up no job. Interestingly, without using instrumental variables, the estimated results are similar to those of Heinrich et al. (2005), thereby strongly suggesting that the estimates reviewed above may be biased upwards – that is biased in favour of a positive effect of temporary jobs.

The literature on the stepping-stone hypothesis reviewed so far focuses on the narrow question of what is the best choice for the unemployed given the institutional environment. It would be erroneous, however, to derive policy implications as regards the desirability of regulations facilitating or impairing temporary jobs from the results of this literature. A different way to ask whether temporary contracts are effectively stepping stones into employment that is more relevant from a policy viewpoint is to ask whether a reform, which makes temporary contracts more attractive, facilitates a quicker integration of workers into employment and, particularly, into stable jobs. One of the few studies investigating this question is that of Garcia-Pérez et al. (2014), who exploit the quasi-natural experiment provided by the 1984 liberalisation of fixed-term contracts in Spain to examine, within a regression-discontinuity design, the differential labour marker performance of cohorts of high-school dropouts, who attained the minimum working age just before or just after the reform. They find that over the subsequent 20-year period, the cohorts that entered the labour market after the reform had both more employment and unemployment spells, on average, suggesting enhanced cycling between fixed-term contracts and unemployment. Overall, it is estimated that they worked about 300 days less due to the reform. In other words, this result suggests that facilitating labour market access through temporary contracts does not help, and in fact hampers, the labour market prospects of youth in Spain. Needless to say, these findings may be specific to the Spanish context and more research is needed on this issue before firm conclusions can be taken.[50]

A temporary job might be simultaneously a stepping-stone for some individuals and a trap for others, if certain workers find themselves cycling between temporary positions and unemployment for many years. For example, according to EU-SILC data, in almost all European countries for which data are available, less than 50% of the workers that were on temporary contracts at a given year are employed with full-time permanent contracts three years later (Figure 4.13).[51] Although these figures do not control for individual differences and must therefore be interpreted with caution,[52] they nonetheless suggest a high degree of persistence given that transitions from permanent to temporary jobs are typically very low.[53]

Figure 4.13. **Three-year transition rates from temporary to permanent contracts**

Percentage share of temporary employees in 2008 that were employed as full-time permanent employees in 2011



Note: 2007-10 of the Czech Republic, France, Greece, Sweden and the United Kingdom; 2006-09 for Norway and the Slovak Republic; and 2005-08 for Ireland.

Source: OECD calculations based on the European Union Statistics on Income and Living Conditions (EU-SILC) 2005-11.

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A few papers have more rigorously estimated lock-in effects over a longer time horizon finding significant evidence of persistence in non-regular employment. For example, Esteban-Pretel et al. (2011) estimate a structural model to study post-graduation labour market trajectories of Japanese young graduates and find that up to 10-15 years later those who had started their careers in contingent jobs[54] within one month from graduation have a lower probability of being in regular jobs than those who started with unemployment, even though this effect disappears after 20 years. On the basis of social security data, Toharia and Cebrián (2007), report that between 21.4% of Spanish workers that had a temporary contract in a given year were still on temporary contracts five years later and had no experience of open-ended contracts in between. Even more striking, using more recent data from the same source, Conde-Ruiz et al. (2011) report that, while virtually all individuals that entered the labour market before the age of 21 started with a non-regular contract, about 40% of them were still on temporary contracts 20 years later. Berton et al. (2007), using Italian social security data, show that only 48% of young graduates who entered the labour market with a standard fixed-term contract were in a permanent job five years later, while 22% were still in non-regular employment and the remainder were unemployed or out of the labour force.[55] Finally Booth et al. (2002) look at permanent effects on wages. They find that having taken a temporary contract early in the career induces a permanent wage penalty for British men – albeit not for women.

A number of studies have also pointed out that, while one spell of temporary employment might be beneficial for obtaining a permanent job, this is not necessarily the case if spells of temporary jobs are repeated. Indeed, Gagliarducci (2005) finds for Italian graduates that, the longer the time spent in temporary jobs and the more numerous the previous job spells, the lower the probability of eventually ending up in a permanent job. This suggests that temporary jobs can be a port of entry in the labour market for unexperienced workers, and a stepping stone towards stable jobs, but only if workers manage to escape quickly from temporary jobs. Similar results are obtained by Garcia-Pérez and Muñoz-Bullón (2011) for Spain and Cockx and Picchio (2012) for Belgium. Finally, Rebollo-Sanz (2011) qualifies these statements for Spain by showing that repeated spells of temporary employment have a particularly negative effect on the probability of obtaining an open-ended contract if they occur within the same firm.

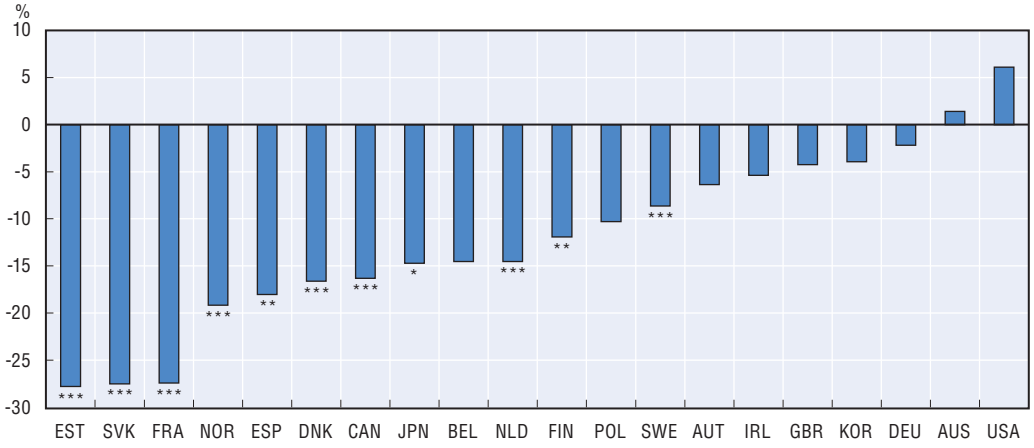
Overall the empirical literature seems to confirm that there are a significant number of non-regular workers who, while seeking a permanent job (see Figure 4.3 above), find it difficult to escape their precarious status and to transit towards open-ended, regular contracts. As discussed above, unequal access to employer-sponsored training could be one of the reasons behind this pattern. One key difficulty in estimating the impact of contract type on training is that, at any given point in time, workers endowed with less good productive abilities are less likely both to have a regular, open-ended contract and to receive employer-sponsored training conditional on the type of contract. To the extent that ability is not observable, one might incorrectly attribute an observed training pattern to contract type when, in fact, this is simply reflecting unobserved ability. One way to solve this identification problem is by finding a proxy variable that can capture unobserved ability while, at the same time, being unaffected by employer-sponsored training. Cognitive skill variables from the Survey of Adult Skills (PIAAC) can serve this purpose. Indeed, these skills are sufficiently general that they are likely to be acquired before entering the labour market and do not appear to be affected by employer-sponsored training (see OECD, 2014b).

Therefore, estimating the relationship between contract type and training by simultaneously controlling for individual literacy and numeracy skills allows interpreting the results in terms of causality.[56]

On average across the countries for which this analysis can be undertaken (see OECD, 2014b), being on a temporary contract reduces the probability of receiving employer-sponsored training by 14% (Figure 4.14). In half of these countries, contract type has a negative and significant impact on training. In Estonia, France, and the Slovak Republic, this penalty rises to 27%. Moreover, in a number of other countries, the point estimates exceed 5%, suggesting that the lack of significance in certain cases might be due only to the small sample size. In fact, a positive but statistically insignificant impact of temporary work status on training participation is found in only two countries (Australia and the United States).[57] Overall, these results suggest that temporary workers are on average less likely to receive employer-sponsored training than their counterparts on open-ended contracts. To the extent that training increases the productive skills of workers, this contribute over time to increase the skills gap between regular and non-regular workers (see Section 1), making the transition to regular jobs more difficult as workers age and progress in their professional career.

Figure 4.14. **Temporary workers and employer-sponsored training**

Estimated percentage effect of temporary contract status on the probability of receiving employer-sponsored training, 2012



Note: Estimated percentage difference between temporary and permanent workers in the probability of having received training paid for or organised by the employer in the year preceding the survey, obtained by controlling for literacy and numeracy scores and dummies for gender, being native, nine age classes, nine occupations, nine job tenure classes and five firm size classes. Data are based only on Flanders in the case of Belgium and England and Northern Ireland in the case of the United Kingdom.

***, **, *: significant at the 1%, 5%, 10% level, respectively – based on robust standard errors.

Source: OECD Survey of Adult Skills (PIAAC) 2013, *http://dx.doi.org/10.1787/9789264204256-en*.

StatLink http://dx.doi.org/10.1787/888933132811

4. Policy options to reduce labour market segmentation

The previous sections have shown that the legislative provisions governing termination of employment relationships vary widely across contracts in most countries. As suggested by economic theory and previous empirical evidence, in countries with stringent regulations on permanent contracts and low termination costs for non-regular contracts employers have strong incentives to use non-regular contracts as a buffer of workforce adjustment to fluctuations in demand (see Box 4.4). Moreover, as pointed out in

Box 4.4. **Employment protection legislation and labour market duality**

According to theoretical arguments, if the use of fixed-term contracts is liberalised while maintaining strict employment protection regulations for open-ended contracts, firms will react by substituting temporary for regular workers, with no long-run effect on employment, due to the smaller cost involved with the termination of the employment relationship at the end of a fixed-term contract (see e.g. Boeri and Garibaldi, 2007; Bentolila et al., 2008). In addition, a large asymmetry between the employment protection provisions (and, sometimes, tax wedge) applying to the two types of contracts will reduce the conversion rate of fixed-term contracts into permanent ones, thereby transforming fixed-term contracts into a trap rather than a stepping stone into more stable employment (Boeri, 2011). It has also been argued that in a setting where extensive employment protection for workers with open-ended contracts coexists with lighter regulation for fixed-term contracts, wage pressure and therefore unemployment may increase (Bentolila and Dolado, 1994). The argument behind this is that "insiders" on permanent contracts can raise their wage claims without much risk of losing their jobs as any resulting negative effects on employment will be borne mainly by the "outsiders" who work on fixed-term contracts (often youth and other workers with little work experience or fewer skills). More generally, these observations imply that the effect of employment protection regulations on fixed-term contracts cannot be seen in isolation, but is conditional on the degree of stringency of employment protection for regular contracts. In countries with highly protective regulations for permanent contracts, those under fixed-term contracts (often youths and other disadvantaged groups) will bear the main burden of employment adjustment (Saint Paul, 1996). Overall, this literature suggests that a large wedge between regulations for temporary and permanent contracts is likely to contribute to the emergence of a persistent *divide* across workers holding different types of contract in terms of both current working conditions and future prospects. This situation is often referred to as contractual *segmentation* or *duality*.

There is a vast empirical literature showing that the incidence of temporary contracts tends to be increased by the rigidity of regulations concerning dismissal for permanent contracts and reduced by legislation limiting hiring on, and renewal of, temporary contracts. For example, Lepage-Saucier et al. (2013) analysed hiring patterns in a cross-country regression setting and found that changes in OECD indicators for dismissal of permanent contracts and hiring of temporary contracts have opposite patterns of association with the share of temporary contracts in new hires. Kahn (2010) uses longitudinal microdata for nine European countries and finds that recent policy reforms making it easier to create fixed-term jobs raised the probability that a worker will be on a fixed-term contract. However, he finds no evidence that such reforms increased employment: instead they appear to have encouraged substitution of temporary for permanent work. In a similar vein, several studies focus on major Spanish reforms in the early 1980s that liberalised fixed-term contracts without changing dismissal costs for regular contracts and find, in general, that this led to a very large increase of fixed-term contracts and a reduction in employment on permanent contracts (see e.g. Bentolila et al., 2008; Aguirregabiria and Alonso-Borrego, 2009). Evidence from Spain also suggests that, when the regulatory gap between permanent and temporary employment is large, transition rates across these two states are low (e.g. Güell and Petrongolo, 2007), thereby confirming the "duality" theory: outsiders tend to move from one temporary contract to another while insiders enjoy high protection and employment stability. Finally, several papers find that the difference in the cost of adjusting the stock of workers on different types of contract explains both the share of workers on fixed-term contracts and their relative volatility of temporary jobs (see, for example, Goux et al., 2001). Overall, this evidence suggests that, all else equal, stringent regulation on regular contracts tends to encourage the use of temporary contracts (see e.g. Boeri, 2011; Boeri and Van Ours, 2013; OECD, 2013a). Indeed, rigid dismissal regulations have also been shown to reduce job and worker turnover in general (see OECD, 2010; and Bassanini and Garnero, 2013) but increase churning of temporary jobs (see Centeno and Novo, 2012; Hijzen et al., 2013).

the last section, while temporary jobs can be a stepping stone towards stable employment for a number of workers, other workers remain trapped into non-regular contracts with decreasing hope of escaping the precariousness of this condition.

These persistent disparities, however, are not only an issue from an equity viewpoint but they induce suboptimal outcomes from an efficiency viewpoint. Indeed, a highly dual labour market may result in an increase number of workers with lower work motivation, flexibility and willingness to take up new duties. Similarly, firms are likely to invest less in their workforce if they cannot count on a sufficient period of time to recoup investment costs, as exemplified by the lower access to employer-sponsored training for temporary employees (see Section 3). Consistently, evidence from several Spanish labour market reforms implemented in the past twenty years also suggests that the large gap between restrictions for open-ended and temporary contracts and the consequent widespread use of fixed-term contracts depress multi-factor productivity growth (Dolado et al., 2012). More generally, cross-country time-series evidence suggests that countries that implemented partial reforms of EPL, whereby regulations on temporary contracts were weakened while maintaining stringent restrictions on regular contracts, have indeed experienced slower productivity growth (OECD, 2007; Bassanini et al., 2009).

A large share of temporary workers is also typically negatively associated with labour market resilience due to large increases in the unemployment response to output shocks. In turn, this has been found to reinforce the cyclical increase in earnings inequality (OECD, 2012). For example, the dramatic upsurge in unemployment in Spain during the recent crisis was essentially due to the destruction of temporary jobs (OECD, 2014c). As suggested by economic theory, these types of fluctuations are by and large inefficient. In the presence of low or limited termination costs for non-regular contracts, firms are induced to excessive job destruction among these contracts, since they do not internalise the social costs engendered by their decisions in terms of both congestion of job searchers and loss of fiscal revenue and extra expenditures in unemployment as well as social benefits (Feldstein, 1976; Cahuc and Zylberberg, 2008).

For all these reasons, reducing the labour market divide between workers on different contracts is a key policy objective for those OECD countries where this divide is more important and persistent. Even though the reasons for segmentation in the labour market are complex and labour market regulations are only one of the factors behind it, reforms of employment protection legislation can nonetheless effectively contribute to lessen labour market duality (see Box 4.4). In practice, this goal can be achieved either by strengthening regulations of temporary contracts or by easing regulations for permanent contracts or both.

A strategy aimed at reducing dualism that has been recently followed by some countries with stringent dismissal regulations for permanent contracts is to make hiring on temporary contracts more difficult and costly, while leaving unchanged or simultaneously reducing dismissal costs for permanent workers (see OECD, 2013a). For example, among a number of provisions concerning both permanent and temporary contracts, the new Slovenian Employment Relations Act, which entered into force in April 2013, forbids employers to hire different workers on the same post using fixed-term contracts for more than two consecutive years. Reductions in the maximum cumulative duration of fixed-term contracts, although not applicable to multiple employees for the same position, have also recently been implemented in the Czech Republic, the Slovak Republic and Spain. However, the problem of provisions restricting renewals,

duration or the scope of fixed-term contracts is that their enforcement might be particularly difficult. In fact, enforcement of EPL is mainly dependent on individuals who consider themselves as having been wrongfully treated and lodge a complaint. While potential plaintiffs are well identified and able to react in the case of unfair terminations, breaches of legislation concerning hiring on temporary contracts are much more difficult to identify (see e.g. Muñoz-Bullón, 2004). The effectiveness of these measures must therefore be assessed through rigorous evaluations. In addition, as shown in Section 3, making hiring regulations too restrictive might be counterproductive, by increasing perceptions of job insecurity for those workers who are unable to use non-regular contracts as a stepping-stone into open-ended ones. The latter argument potentially applies also to strategies of selectively increasing social security contributions for fixed-term contracts above the rate paid in the case of permanent ones – as recently done in Italy, France and Slovenia (see Section 2) – if dismissal costs for regular contracts are left unchanged.

The implementation of flexibility-enhancing reforms of dismissal legislation for permanent workers in countries where it is overly strict is likely to increase the share of permanent contracts in new hires and gradually reduce the use of fixed-term contracts where the latter are not justified by the nature of tasks and activities involved (see Box 4.4 for a brief survey of the literature). The Spanish experience in the aftermath of the 2012 reform is an interesting case, since that reform clearly reduced dismissal costs without modifying regulations for fixed-term contracts. In particular, the reform redefined the conditions for a fair economic dismissal, reduced compensation for unfair dismissal from 45 to 33 days per year of service and increased the probationary period for small and medium firms. Despite the fact that the available data only cover the first year of implementation of the reform and the very difficult economic conditions in Spain in that year, an evaluation by the OECD (OECD, 2014c) suggest that the reform was responsible for about 25 000 new permanent contracts each month (representing an increase of 30% in the share of permanent contracts in new contracts).

However, there is also evidence which suggests that reforms involving the relaxation of regulatory provisions on individual and collective dismissals are likely to increase the number of workers who are affected by labour mobility at the initiative of the employer (see OECD, 2010). Those who lose their jobs in the aftermath of these reforms – but would have not lost their job otherwise – are likely to experience income losses both during their search for another job and at re-employment (see OECD, 2013a). For equity and political-economy reasons, therefore, these reforms should be accompanied by the provision of adequate unemployment benefits, albeit made conditional on strictly enforced work-availability conditions and part of a well-designed "activation" package, as suggested by the restated *OECD Jobs Strategy* (OECD, 2006). However, such a reform package might be difficult to implement insofar as it would impose significant extra costs on public budgets and would require adequate administrative capacity.

Significant reforms of overly strict regulations on dismissals appears to be effective at reducing the expansion of temporary contracts – where the latter are not motivated by the nature of the tasks or activities involved – because they remove the very same reason why employers are pushed to use excessively fixed-term contracts: namely, the cross-contract difference in job-termination costs and difficulties borne by employers. In addition, by diminishing the gap in entitlements across employees on different contracts, these reforms also mechanically lessen inequalities across workers. Yet, in practice, this might occur at the price of a significant reduction in worker protection, if government budget

constraints or lack of administrative capacity prevent coupling EPL reforms with adequate unemployment-benefit provision, well-enforced job-search requirements and effective re-employment services. This suggests that another way to alleviate labour market dualism, at least to the extent that it is induced by regulation, would be to explicitly enhance the convergence between the different types of contracts by reducing the wedge between termination costs associated to regular and non-regular contracts (e.g. making employment protection as much homogeneous as possible across different contractual relationships) while leaving more freedom to set overall worker protection at a level that precisely matches social and political preferences.

An extreme form of such convergence would be achieved through the introduction of a *single employment contract*, as currently discussed in a number of European countries but also suggested in the context of non-European labour markets (see, for example, Aoyagi and Ganelli, 2013). The over-arching principle of a single contract consists in suppressing all forms of temporary employment contracts while introducing a new open-ended (regular) contract with no *ex ante* time limit, with an overall level of job protection to be chosen according to political preferences but progressively increasing with tenure. Tenure-related severance pay can indeed be justified from an efficiency perspective if there are significant investments in job-specific skills by workers (e.g. Boeri et al., 2013).[58] Concrete policy proposals have been put forward and discussed, notably in France, Italy and Spain, based on academic work and models, but they differ considerably in their modalities and potential effectiveness in tackling labour market dualism.

Two broad types of single contract proposals have been put forward. A first type of proposals would consist in introducing a new open-ended contract for new hires with two phases, an "entry" phase, during which worker entitlements in the case of dismissal are reduced although possibly increasing progressively with job tenure and identical in the case of both fair and unfair dismissal, and a "stability" phase, during which the worker would obtain the standard permanent contract with no changes in his/her rights in case of termination.[59] The key problem of this type of proposals resides in the difficulty of eliminating the discontinuity induced by passing from the "entry" to the "stability" phase, to the extent that worker rights in current open-ended contracts are different in the case of fair and unfair dismissal. In general, therefore, employers would face a strong disincentive to keep their employees beyond the "entry" phase.[60]

A second class of single-contract proposals explicitly aims at avoiding discontinuities in patterns of workers' entitlements. The cornerstone of these proposals is the introduction of a smooth schedule of increasing severance pay entitlements with job tenure[61] and the redefinition of unfair dismissal, which would have to be restricted only to cases of discrimination and prohibited grounds. Such schemes would make dismissals easier while compensating worker's losses through monetary payments only, therefore without uncertainty. At the same time, in contrast with contracts with a long trial period and/or an entry "phase", there would be no spike in the incentive to dismiss workers as job tenure increases. Nevertheless, one problem of this type of proposals is that, in tying rights to the enterprise, it is likely to reduce turnover and prevent mobility across jobs. In order to address this problem, the idea of a single contract based on experience-increasing rights to severance pay has been also explored (Lepage-Saucier et al., 2013). In this case, for the whole duration of the employment relationship, employers would pay additional social security contributions into a fund tied to the worker, which would be portable across jobs when the worker changes employers. Then, if the worker is dismissed, the fund would finance his/her severance pay.[62]

However, while firms may use temporary contracts to possibly reduce labour costs or as a screening device for future permanent hiring, they also need this option to respond to fluctuations in activity or for jobs that are truly temporary (OECD, 2013a). So, removing temporary contracts brings the risk of introducing excessive rigidity in hiring decisions and could lead to employment losses, given that not all temporary jobs would be substituted by permanent ones. In addition, as suggested by the analysis in Section 3, preventing firms from hiring on fixed-term contracts in the presence of truly temporary activities would lead to enhanced utilisation of independent contractors and dependent self-employed, thereby inducing the expansion of an even less protected form of employment. More generally, imposing additional contractual rigidities on employers runs the risk that compliance with labour laws decrease, or employers may be tempted to substitute capital for labour inputs or to outsource work to lower cost jurisdictions.

In order to address these problems, a third group of proposals has been put forward, usually identified with the term *unified contract*. The idea would be to both maintain all types of contracts and have termination costs increasing with seniority, independently of the type of contract. In addition, in the case of termination, firms would pay a layoff tax to the public authorities, while dismissals would be unfair only in cases of discrimination and prohibited grounds (see e.g. Blanchard and Tirole, 2003; Cahuc, 2012). The layoff tax would yield resources to mutualise the reallocation costs of displaced workers and induce firms to internalise the social cost of dismissals, without any need of reinstating workers, if set at a sufficiently high level (Cahuc and Zylberberg, 2008).[63] The clear advantage of this proposal is that it would leave unchanged the cost of termination of short-term contracts, thereby not making more burdensome their use for tasks that are truly temporary.

A key requirement of all these proposals is, nonetheless, the restriction of the definition of unfair dismissal to false reasons, discrimination and prohibited grounds (plus violations of notification and severance pay requirements, the latter repressed only with light monetary sanctions). In other words, any economic motive or personal reason related to the worker's performance (such as reduction of individual productivity or unsuitability) would be a fair and justified reason for dismissal, with the judicial review of courts restricted to assessing that the purported reason is not in fact masking prohibited grounds. This is particularly important in the case of the unified contract, since otherwise temporary contracts would remain more attractive, given that termination of contracts at the end date is generally considered as fair. However, while this is already the case in common-law countries with few, limited exceptions (see OECD, 2013a), implementing this requirement might prove difficult in practice in a number of civil-law countries where the legal tradition of judicial review of employers' decisions is much more extensive. For example, among a number of other provisions, the 2012 reform in Spain lifted the obligation for employers to prove that the dismissal is essential for the future profitability of the firm. Even though initial rulings of the Supreme Court appeared to incorporate this principle, a recent court decision seems to restate the principle that the judge must verify the appropriateness of managerial decisions.[64]

In the case of dismissal for personal reasons related to the worker's performance, implementing a change of legal culture might be even more difficult. In fact, the boundary between personal reasons related to the work activity and those unrelated to that – thereby being unlawful grounds – might be tenuous. As a consequence, it might be difficult to specify this boundary in the law in a manner leading to effective modifications of actual practice. For example, the 2012 Italian reform restricted the possibility of reinstating the

employee when the dismissal is declared unfair by the court only to cases in which the alleged reason is inexistent – beyond cases of discrimination and prohibited grounds. The examination of the first court decisions under the new regime suggests, however, that, while in the case of redundancy this has significantly reduced the frequency of reinstatement orders, the application of the reform to cases of unfair dismissals for personal reasons has, at best, given rise to divergent interpretations by different judges.[65] In Italy and Spain, however, there are no or little disincentives for workers to file a complaint. By contrast, where disincentives are in place,[66] the evidence suggests that the number of cases of termination that are brought to court is significantly reduced (see Venn, 2009), thereby making the distinction between fair and unfair termination less binding. It remains to be seen whether or not this would suffice in practice.

In actual country experiences, however, there are no examples of *single contract* and only few examples of *unified contract*. While for the single contract this is likely to be motivated by the risk of discouraging hiring by introducing excessive rigidities in the labour market for volatile and occasional activities, the limited number of examples of unified contract is likely to be due to the fact that its enactment would require either relatively light dismissal regulations or limited judicial review of the dismissal decision or both. In fact, as discussed in Section 2, beyond the countries where employment-at-will is the dominant regime, only Ireland, New Zealand and the United Kingdom impose essentially the same termination costs to fixed-term and open-ended contracts. Yet, judicial review in these countries is essentially limited to prohibited grounds and violation of procedural requirements. And the degree of employment protection for *all* contracts in these countries is relatively low, thereby limiting resorting to contracts for services to circumvent regulations on termination (see Section 3) as well as avoiding negative effects on employment reallocation (see OECD, 2010). Other countries, with different legal tradition and strong social preference for a relatively high level of protection, have more generally taken some steps – albeit sometimes timid – in the direction of making termination costs for different contracts converge towards a uniform rate. The clearest example is perhaps the 2013 Slovenian reform, which equalised the level of severance pay across contracts, while simultaneously significantly enlarging the definition of fair dismissal.[67] Nevertheless, the judicial review of the reasons of dismissal remains extensive and reinstatement orders in the case of unfair dismissals are still, *de jure* and *de facto*, the main avenue for redress, thereby maintaining a significant gap in potential termination costs across contracts. Although much less extensive, the recent Spanish, French and Italian reforms go in the same direction.[68] However, by leading only to a very limited convergence of expected termination costs across contract types, these reforms are unlikely to radically change the functioning of the labour market in these countries.

While convergence of termination costs across contracts at a level that is not overly high is likely to reduce duality without negatively affecting efficient reallocation of resources and therefore employment and productivity growth, reforms of termination rules for employment contracts will not eliminate all forms of duality. Indeed, as long as differences across social protection regimes, including employers' costs, applicable to different contracts are not eliminated, employers will have a strong incentive to employ those under more favourable regimes. In fact, social security regimes are often different between employees and dependent self-employed and there are few countries in which social security contributions vary across employment contracts and are less favourable for temporary employees. For example, in Hungary, certain seasonal and temporary employees can be employed under a simplified

employment contract for which employers pay a flat daily rate of social contributions, giving employees entitlement to emergency healthcare, unemployment benefits and limited pension coverage, but not other forms of social security (Frey 2011). Moreover, although in principle guaranteed by anti-discrimination law, it might be difficult for temporary employees to take advantage of the right to sick and parental leave while under the threat of non-renewal (non-conversion) of the contract (Ichino and Riphahn, 2005).

Ultimately, it should also be recognised that certain jobs are likely to last longer, while others are likely to be more volatile, no matter how terminations are regulated in different contracts. Independently of their contract, therefore, workers who remain trapped in bad jobs, characterised by high job insecurity, are likely to experience more frequent non-employment spells. These workers are less likely to make sufficient contributions to be entitled to unemployment benefits when out of work. Moreover, they will, in many cases, accumulate lower pension rights – in contribution-based pension systems – and have worse access to health insurance – in countries where its coverage is entirely or partially dependent on the employment status.

Conclusions

This chapter uses the concept of non-regular employment, defined as all types of employment that do not benefit from the same provisions in term of employment protection as regular, open-ended contracts, to characterise labour market duality and capture inequalities in job security – one key dimension of job quality – across contracts. To document the size of the phenomenon, the chapter also provides new evidence on the share of dependent self-employed worker, a category of workers usually in a situation of economic and personal dependence. Some key recent patterns can be observed: temporary employment continues to be widely used in a number of OECD countries, even if permanent employment remains the most prevalent form of dependent employment contract. Moreover, beyond the multitude of types of existing employment contracts, contracts for services tend to be increasingly used as an alternative to regular open-ended contracts. Non-regular workers are not easy to characterise as a category since temporary workers and own-account self-employed have different profiles. But the portrait that emerges from available data confirms that temporary jobs are disproportionately held by younger, less-educated and lower-skilled workers, and are not a voluntary choice for most employees.

Furthermore, non-regular workers – be they temporary employees or DSEWs – are generally less protected by labour legislation against termination of the employment relationship. One clear point that emerges from the detailed review of legislation applying to these workers is the wide disparities in termination costs between regular and non-regular workers, which seem to trigger *de facto* differences in job quality (see also Chapter 3). The evidence presented in the chapter suggests that the majority of non-regular workers tend to display worse outcomes in terms of perceived job security and wages, even though the situation differs across countries and contracts: non-regular workers, notably fixed-term and TWA workers, appears to feel much more insecure than permanent employees as regards the risk of job loss, the probability of re-employment and the risk of costly job loss. More worrisome, even though non-regular contracts can be either a voluntary choice for certain workers or a stepping stone into stable employment for a number of them, notably youth, the low rates of transition from temporary to permanent contracts suggest that these inequalities tend to persist over time and may generate scarring effects.

As policy makers are increasingly aware of the danger of concentrating labour market adjustments mainly through non-regular jobs, some countries with stringent dismissal regulations for permanent contracts have made hiring on temporary contracts more difficult and costly, without much action as regards regulation on dismissal of permanent workers. Nevertheless, such a policy strategy is sometimes confronted with complex enforcement problems. In addition, the evidence presented in this chapter suggests that increasing restrictions on hiring regulations might adversely affect temporary workers by increasing their job insecurity. By contrast, reforms that relax regulations on dismissal of permanent workers have proved to be effective in reducing labour market dualism. However, for equity and political-economy reasons, given that not all workers would gain from these reforms, they should ideally be accompanied by adequate unemployment-benefit provision, conditional on properly enforced job-search requirements associated with well-designed activation packages, which nonetheless could be costly for public budgets and require significant administrative capacity.

Another way to alleviate labour market dualism is to enhance the convergence in termination costs between the different types of contracts, making regulation more homogeneous across contractual relationships. Recent proposals of single or unified employment contracts that have been put forward in the academic literature represent a radical version of such a convergence, since they would imply the disappearance of either all temporary contracts or of those for which termination costs could not be made equal to those applying to dismissal of permanent workers with equivalent job tenure. However, removing temporary contracts altogether brings the risk of introducing excessive rigidity in hiring decisions and could lead to employment losses. Conversely, a full convergence of termination costs at a relatively high level, while maintaining various forms of temporary contracts, would require addressing a number of practical issues whose solution is far from obvious, particularly in countries with a legal tradition of extensive judicial review of dismissal decisions. Indeed, the few countries that have implemented a significant convergence of termination costs across contracts are all countries with low degrees of employment protection and limited judicial review of contract terminations.

Overall, relaxation of overly strict employment protection for regular contracts – coupled with reforms in active and passive labour market policies – and/or some convergence towards adequately protective termination rules across contracts is likely to reduce duality while simultaneously allowing efficient reallocation of resources, and therefore employment and productivity growth. Nonetheless, other forms of duality – notably related to access to social protection and career progression – are likely to persist. Future research will have to focus on effective policy actions to alleviate these sources of inequality without jeopardising economic efficiency.

Notes

1. The concept of non-regular employment adopted here differs thus from that of atypical employment or non-standard forms of employment which would typically comprise either part-time work or all types of self-employment.
2. Lack of reliable cross-country comparable data prevents a systematic analysis of casual employment in this chapter.
3. In Poland, workers during the probationary period are automatically on a fixed-term contract.
4. A scatter plot between the share of fixed-term contracts and the incidence of contracts with duration below three months does not show any correlation.

5. For instance from 38.8% and 33.6% in 2006-07 to 21.2% and 15.9% in 2011-12, respectively, in Finland and Estonia.

6. Own-account self-employed workers are self-employed without employees.

7. For example, in Poland, there is a long history of some companies putting pressure on workers to convert their employment contract into a contract for services (see e.g. Zientara, 2008). This might explain the low rate of DSEWs, as measured with EWCS data, despite the fact that the phenomenon of DSEWs and its social implications are hotly debated in the country (OECD, 2014d). Indeed, according to the EWCS survey, about 1.6% of Polish employees declare having a contract that cannot be classified as either indefinite-term, or fixed-term, or TWA, or apprenticeship, against an average of only 0.6% in the other OECD countries covered by the survey.

8. Due to the lack of data, DSE workers are not included in that analysis. Data come from EU-LFS and national LFS covering thus fixed-term contracts and TWA employment.

9. The particularly high figure in Slovenia is largely driven by TWA (23% of youth employed in a temporary employment agency)

10. Literacy is defined as the ability to understand, evaluate, use and engage with written texts to participate in society, achieve one's goals, and develop one's knowledge and potential. Numeracy is defined as the ability to access, use, interpret and communicate mathematical information and ideas in order to engage in and manage the mathematical demands of a range of situations in adult life. Problem solving in technology-rich environments is defined as the ability to use digital technology, communication tools and networks to acquire and evaluate information, communicate with others and perform practical tasks.

11. Temporary employment covers fixed-term contracts and total TWA employment.

12. To be consistent with previous analysis.

13. However, in Australia, employees with no contract – most of which are likely to be casual workers – perform much worse than regular employees. The gaps in scores are statistically significant at the 1% level and quite large in size: 6.5% in literacy and numeracy and 4% in problem solving.

14. Further comparison performed by level of education to disentangle the respective effects of qualification and skills on differences in proficiency by contracts reveals that the gap in scores between temporary workers and permanent ones are strikingly high for low educated workers, in particular in the United Kingdom, but also in Sweden and Belgium (see OECD, 2014b).

15. The feedback from ILO staff – and in particular Mariya Aleksynska, Mélanie Jeanroy, Angelika Muller and Corinne Vargha – on the first draft of the sections of the questionnaire concerning non-regular contracts is gratefully acknowledged. Moreover, the contribution of Danielle Venn in the harmonisation of the country responses is gratefully acknowledged. Nevertheless, the OECD Secretariat retains full responsibility for its content and the analysis presented here.

16. The information presented below refers primarily to regulations imposed through legislation. However, where relevant, rules derived from case law and collective agreements are also referred to.

17. Seasonal and project work contracts are sometimes not allowed for employees. However, when this is the case, it is possible to make a contract for services to perform a project (or seasonal work) outside the employment relationship between an employer and an individual.

18. In some instances, these restrictions apply only in the case of successive contracts for the same job. For example, in France, a worker can be employed repeatedly by the same company on a standard fixed-term contract if this is done on different posts each time. In other cases, it is possible to obtain a derogation from restrictions imposed by regulations if the justification of the fixed-term contract changes. For instance, in Sweden, the two-year maximum cumulative duration of contracts applies for each type of contract, so that one worker can be employed on fixed-term contracts for more than two years by changing the reason for a fixed-term contract, provided that these reasons can be successfully defended in courts (see Engblom, 2008).

19. Austria, Denmark and Turkey also do not put restrictions on the number or duration of contracts, but their renewal must be based on objective reasons (as for the first contract in the case of Turkey).

20. In 2010, the Hungarian labour code was modified to allow "simplified employment" of seasonal and temporary workers in an attempt to counter widespread informality and tax and social security evasion among seasonal workers. Under those rules, firms can employ workers for up to 120 days per year in seasonal jobs in agriculture or tourism, and in "temporary" jobs in other industries. Temporary workers can work for up to five consecutive days, 15 days per month and 90 days per year. There are no quotas on the use of seasonal workers, but temporary workers are

limited at around 20% of total employment in the user firm. Simplified employment does not require a written employment contract (unlike standard employment in Hungary) but workers must be registered. Registration can be done quickly online or by mobile phone.

21. Synchronisation is also mandatory in France in the case of fixed-term contracts between the agency and the worker.

22. In many countries, the amount due as compensation is equivalent to wages due for the remaining contract period had the contract not been terminated.

23. Under the Employees' Income Provision Act (BMSVG) of 2002, employers withhold a legally defined contribution from an employee's monthly pay and transfer this contribution to the employees' chosen income provision fund. In the case of dismissal by the employer, an employee with at least three years of job tenure can chose between receiving his/her payment from the account, or saving the entitlement towards a future pension. If the employee quits or if job tenure is shorter than three years, no severance payment will be made but the balance of the account is carried over to the next employer. The amount of severance pay will depend on the capital accrued in the fund, the investment income earned and the capital guaranteed.

24. Yet, it might be more difficult to successfully make a claim of unfair dismissal in the case of termination at the end date in all these countries than in the case of termination of a regular contract.

25. Unemployment insurance contributions paid by employers on regular contracts are equal to 1.31% of the gross wage.

26. Subsidies for the conversion of fixed-term contracts into open-ended ones also exist in other countries (e.g. Japan), but without fiscal disincentives for FTCs.

27. The rules concerning termination of regular contracts usually apply in the case of open-ended TWA contracts.

28. Act No. 262/2006 Coll., Part 3, as amended in 2012. However this group of workers represent only a fraction of all DSEWs in the country.

29. Yet, in countries for which employment protection for regular employees is limited (such as the United States or many Canadian provinces; see e.g. OECD, 2013a), avoiding misuses of the category of self-employed is more a fiscal and social protection issue.

30. Civil-law countries are countries with a codified civil code. They are typically contrasted with common-law countries (notably English-speaking countries and Israel) where customs and precedents, as reflected in case law, are equally important in defining legislation. A number of countries, such as most Nordic countries, fall in between these two extreme categories.

31. In most countries, the legal tests are applied in a holistic manner, meaning that they are used for guidance but the relative importance of each of them is determined by the specificity of each case.

32. In Australia, the 2009 Fair Work Act (Sec. 358) also prohibits the dismissal or the threat of dismissal of an employee in order to re-engage this person as independent contractor to perform substantially the same type of work.

33. In order to capture unobserved heterogeneity, following Wooldridge (2002), the distribution of the individual effects is parameterised as a linear function of the initial employment status at the first wave of the panel and of the time means of the regressors (see OECD, 2014a, Box 2.1).

34. Subjective measures have been increasingly receiving attention from statisticians and economists over the last 15 years (Stiglitz et al., 2009) as adding significant valuable information alongside more conventional measures due to their intrinsic value and the fact that they capture the impact of factors not picked up elsewhere (see Chapter 3)

35. Figure 4.10 is also based on a sample excluding workers with more than eight years of job tenure. 95% of fixed-term workers in the sample have eight years of job tenure or less, therefore in practice this filter allows restricting the analysis to a common statistical support.

36. This does not exclude, however, that the results presented here could be affected by selectivity, which could occur if EPL affects unobservable characteristics of workers in different contracts in a way that is correlated with job security but uncorrelated with observable characteristics included in the specifications.

37. When countries are grouped in only two groups (high and low EPRC index), the difference across groups is significant at the 5% level.

38. Due to the small number of observations with TWA contracts in certain group of countries, it is not possible to differentiate between TWA contracts and standard FTCs in Figure 4.11.

39. The share of regular workers who perceive that there is a high risk of job loss varies relatively little across country groups.

40. The fact that results are similar when using dichotomous variables of high and low EPL and quantitative indicators is particularly reassuring. In fact, estimate effects of quantitative indicators are particularly sensitive to outliers with high leverage (that is at the top or the bottom of the distribution). By contrast, those of dichotomous variables are sensitive to outliers with low leverage (close to the centre of the distribution). This suggests that outliers are not an issue here.

41. However, EPL indicators appear to affect perceived job security only in the case of fixed-term employees, while no such effect is estimated in the case of TWA workers.

42. Again, comparing Figure 4.10 with Figure 4.11, it is possible to conclude that these percentage-point differences are quite large.

43. Reasons for use of FTCs or TWA employment, administrative burden for TWAs and requirements of equal treatment of TWA employees.

44. Yet, as discussed in Section 1, most fixed-term workers declare themselves to be involuntary.

45. A negative effect of churning on job satisfaction emerges only when controlling for the wage level, thereby suggesting that higher wages and churning compensate each other in terms of well-being.

46. This is likely to be especially an issue for the least educated, since their unemployment spells tend to be longer (see e.g. OECD, 2012).

47. General training usually defines training that imparts skills that can be used also with other firms. It is typically opposed to firm-specific training that provides competences that are of little use in other firms.

48. This approach was standard in early studies – see e.g. Amuedo-Dorantes (2000) and Dekker (2007) for a survey.

49. The estimates are obtained using the same data sources and methods as for Figure 4.9 above, and notably controlling for initial conditions. This approach has been recently used also by Buddelmeyer and Wooden (2010) for Australia, who find that having a causal job reduces the probability of being in a permanent job one year later with respect to being unemployed, and by Picchio (2008), who finds that, in Italy, being in a temporary job increases the probability of being in a permanent job two years later by about 15 percentage points.

50. These findings appear nonetheless consistent with other evaluations of labour market reforms facilitating temporary contracts while leaving regulations for permanent contracts unchanged. In fact these evaluations tend to show that these reforms lead to substitution of temporary for permanent positions with no overall increase in employment.

51. Exceptions are Iceland, Hungary, Norway and the Slovak Republic, where the transition rate is however below 60%. The low rate for the Netherlands can partially be explained by the high incidence of part-time in that country.

52. For example, for certain workers, low transition rates into regular contracts may not reflect that they initially had a temporary contract, but may instead reflect that the nature of their occupation requires such a type of contract (e.g. seasonal workers, media industry, etc.).

53. According to the same data, in all of these countries, less than 5% of permanent workers in a given year are employed in a temporary job three years later.

54. Including both non-regular and part-time workers.

55. The findings of Autor and Houseman (2010), Garcia-Pérez et al. (2014) and Jahn and Rosholm (2014) mentioned above can also be interpreted as evidence of a temporary job trap in the United States, Spain and Denmark, respectively, for selected group of workers.

56. The contribution of Michele Pellizzari from the University of Geneva to the analysis of temporary contracts and training referred to here is gratefully acknowledged.

57. In addition, the point estimates for these two countries are sensitive to the treatment of workers without contract. If these workers were included within non-regular workers in Australia – assuming that most of them are casual workers – the estimated effect of non-regular employment status would become negative. Similar results emerge if workers with no contract are excluded from regular workers in the United States.

58. These might concern also a reduced employability of workers if they spend too much time in one job.

59. For example, the proposal of *Contratto Unico di Inserimento*, put forward by Boeri and Garibaldi (2008) in the Italian context, envisaged an "entry" phase (up to three years) during which the worker has the right to severance payments proportional to tenure and, in case of unfair dismissal (dismissal without just cause), up to six months in severance payments (five days per month); this would be followed by a "stability" phase, during which the worker would get a permanent contract with no changes in his/her rights in case of termination (notably, in case of unfair dismissal, the right to reinstatement in firms above 15 employees and six months of severance pay in small firms).

60. An extreme version of this proposal consists in an extension of the trial period, sufficient to make fixed-term contracts unattractive, without any changes in termination costs for dismissing permanent workers after the trial period. In this case, however, threshold effects are likely to be of paramount importance. Moreover, an extended probationary period could be considered in contrast with supranational legislation, such as Convention 158 of the ILO for the countries that ratified it. In fact, Article 2 of this convention stipulates that probationary periods should be of reasonable duration. On this basis, in France (one of the countries that ratified Convention 158) the *Contrat Nouvelle Embauche* that was introduced in 2005 and allowed a two-year trial period under certain conditions was subsequently annulled by the administrative high court because it was considered in violation of the ILO convention.

61. For example, the Spanish proposal developed in 2009 by academic economists in favor of a *Contrato Unico* (Abadie et al., 2009) envisaged a more than proportional increase of severance pay with job tenure from 12 to 36 days per year of service, the latter amount being between compensation levels in the cases of fair and unfair dismissal in Spain in 2009.

62. The Austrian income provision fund follows closely this scheme, although without suppressing non-regular contracts (see Section 2).

63. The US system of experience rating in unemployment-insurance premia paid by firms is one example of such a tax scheme, even though with no lump-sum payment at the time of dismissal.

64. See STS 20-9-13, Rec. 11/2013, and STS 27-1-14, Rec. 100/2013. The latter concerns a case of unilateral opting-out of a collective agreement for economic reasons, but the court motivates its decision by restating the general principle that the judge has to assess the reasonable correspondence between the alleged reason and the managerial decision.

65. See, for example, Trib. Bologna, 15 Oct. 2012, est. Marchesini; Trib. Milano, 19 Dec. 12, est. Scarzella; Trib. Roma, 14 Jan. 13; est. Valle; Trib. Milano, 24 Jan. 13, est. Lualdi and Trib. Ravenna, 18 March 13, est. Riverso.

66. For example, in Germany, in the case of dismissal for economic reasons, employees can trade their right to contest their dismissal in court against a guaranteed minimum severance payment (and the right to claim unemployment benefits). Conversely, if they file a complaint and they lose the trial, they would get no compensation.

67. Recently, the Dutch government also approved a bill on similar lines that, however, still needs to be approved by the parliament.

68. See Box 4.3 above for Italy. In France, a reform of the labour code approved by Parliament in May 2013, facilitated dismissals for economic reasons while, simultaneously, increasing social security contributions for short-term contracts and a tax rebate in the case of conversion (see Section 2). In Spain, the 2010 and 2012 reforms introduced various provisions reducing the cost and difficulty of dismissals of permanent workers while, simultaneously, increasing severance pay at the end of a fixed-term contract (from eight days before the reform to 12 days per year of service in 2015). For firms with less than 25 employees, this was planned to gradually equalise termination costs across contracts in the case of fair termination, since these firms were entitled to a subsidy covering part of their severance pay in the case of fair dismissal, thereby reducing severance costs borne by employers to 12 days per year (see OECD, 2014c). The subsidy was, however, suppressed in December 2013, thereby making termination costs diverge again.

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ANNEX 4.A1

Additional tables and figures

Figure 4.A1.1. **Temporary employment by industry, 2011-12, people aged 25 to 54**

Percentage of all employees in each industry

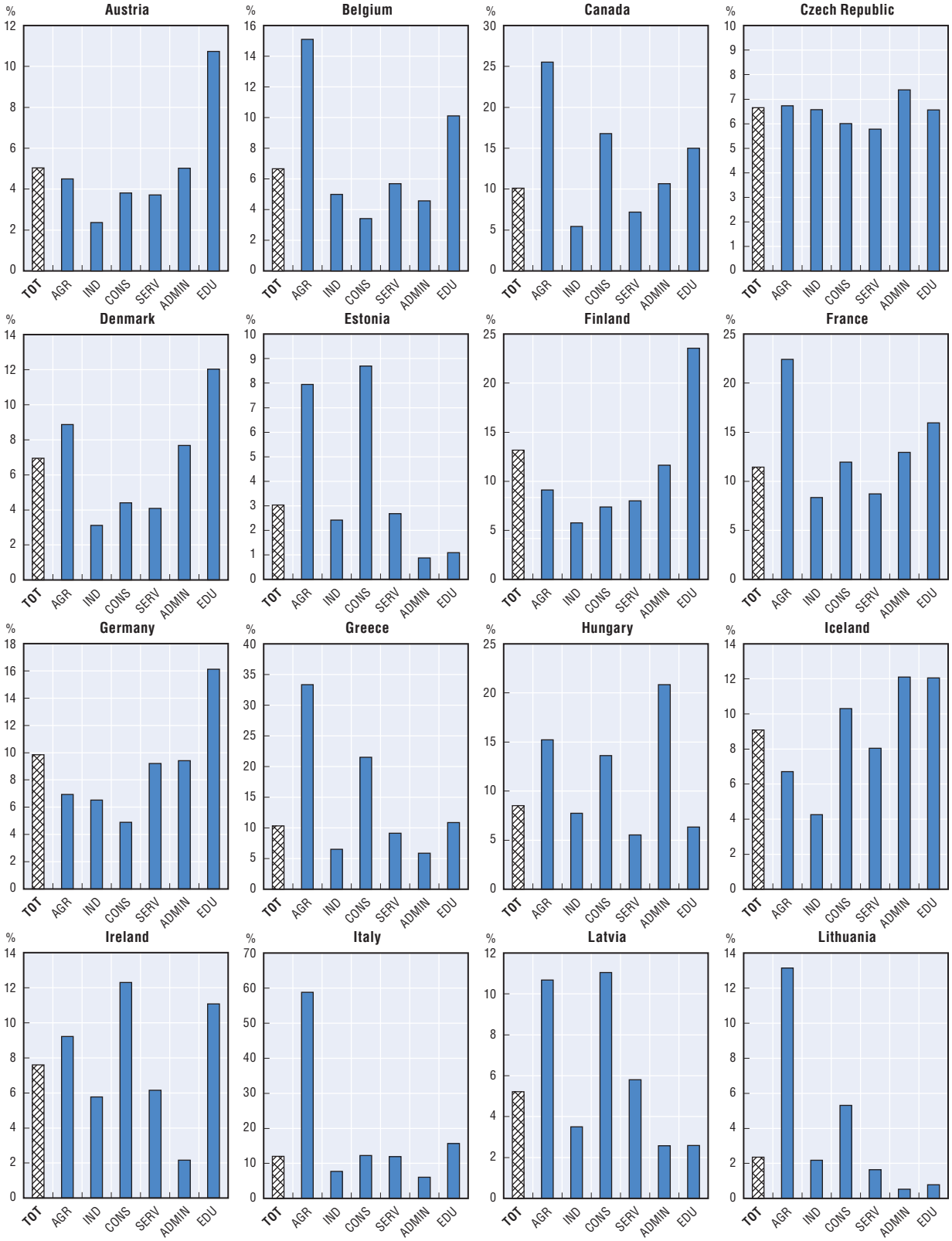
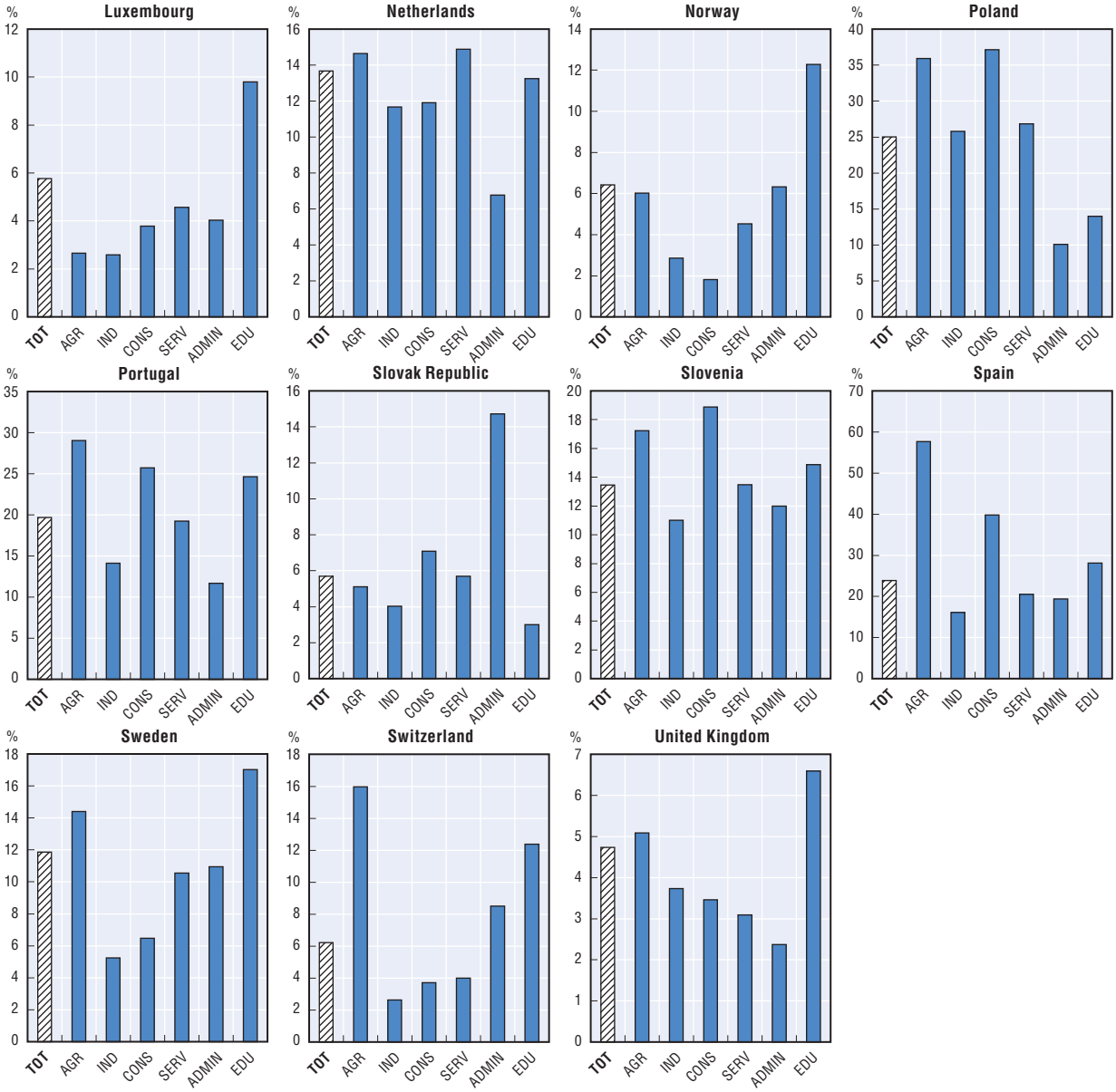


Figure 4.A1.1. **Temporary employment by industry, 2011-12, people aged 25 to 54** *(cont.)*

Percentage of all employees in each industry



Note: Canada: The education, social and entertainment industry includes information (Sector 51) of the NAICS 2002. Other services (sector 81 of the NAICS 2002) are excluded.

TOT: Total; ADMIN: Public administration and defence, compulsory social security; AGR: Agriculture, forestry and fishing; CONS: Construction; EDU: Education, social and entertainment services; IND: Industry; SERV: Commercial services.

Source: OECD calculations based on the European Union Labour Force Survey (EU-LFS) microdata and national labour force surveys.

StatLink http://dx.doi.org/10.1787/888933132830

Table 4.A1.1. **Seasonal and project work contracts**

	Seasonal contracts			Project work contracts		
	Contract end can be end of season (without specific date)?	Do FTC rules apply?	Other restrictions/requirements	Contract end can be end of project (without specific date)?	Do FTC rules apply?	Other restrictions/requirements
Australia	Yes	Yes	None	Yes	Yes	None
Austria[a]	Yes	Yes	End of the "season" must be properly specified in the contract. Can only apply to truly seasonal work, e.g. agriculture, construction.	Yes	No	Project-work contracts allowed as contracts for work and services. Cannot apply to work that is part of the employer's core business.
Belgium	No	Yes	End of contract must be defined by a specific date or an event at a known date.	Yes	Yes	The contract must describe in detail the work to be undertaken.
Canada	Yes (except in British Columbia)	Yes	Some jurisdictions require employers to provide a minimum notice of termination before ending a seasonal contract that is over a certain duration (typically 12 months).	Yes (except in British Columbia)	Yes	Some jurisdictions require employers to provide a minimum notice of termination before ending a project work contract that is over a certain duration (typically 12 months).
Chile	Yes	Yes	Seasonal contracts can only be used in agriculture, arts and entertainment and for professional football players. If there are numerous seasonal contracts between the same parties with little break in between, courts can find that a permanent employment relationship exists.	Yes	Yes	The event that signifies completion of the work must be defined and known to the parties in advance. If there are numerous project work contracts between the same parties with little break in between, courts can find that a permanent employment relationship exists.
Czech Republic[a]	Yes	No	Seasonal employment only allowed as work performed outside an employment relationship.	Yes	No	Project-work contracts only allowed as work performed outside an employment relationship.
Denmark	Yes	Yes	None	Yes	Yes	None
Estonia	Yes	Yes	None	Yes	Yes	None
Finland	No	Yes	None	No	Yes	Projects must have a specified start and end date and concern activities outside the normal business of the firm.
France	Yes	Yes	Courts do not generally recognise activities that take place year-round as seasonal work.	Yes	Only for termination at end of contract.	Project contracts can only be entered into if allowed in CAs. Contracts must specify the outcome of the project, have a duration of 18-36 months and cannot be renewed. Contracts can be terminated before the end of the project (between 18 and 36 months) for real and serious reasons by giving two months' notice.
Germany	Yes	Yes	At least two weeks advance notice for the date of end of season.	Yes	Yes	At least two weeks advance notice for the date of end of project.
Greece	Yes	Yes	Applies to seasonal hotel workers and tour bus drivers. Contract period defined by the operation period of the seasonal business. Termination possible during the contract period subject to FTC rules or in the off-season (abolishing the employee's right to be rehired) by the payment of compensation.	Yes	Yes	If the contract has been in place for 3+ years or renewed more than three times and the work undertaken is part of the fixed and permanent needs of the company, the contract will be converted into one of indefinite duration.

Table 4.A1.1. **Seasonal and project work contracts** *(cont.)*

	Seasonal contracts			Project work contracts		
	Contract end can be end of season (without specific date)?	Do FTC rules apply?	Other restrictions/requirements	Contract end can be end of project (without specific date)?	Do FTC rules apply?	Other restrictions/requirements
Hungary	Yes	Yes	Seasonal employment is allowed in agriculture and tourism up to 120 days per calendar year, or on an ad hoc basis in other industries for no more than five consecutive days and 15 days/month and 90 days/year.	Yes	Yes	None
Ireland	Yes	Yes	Case law has deemed some seasonal workers to be part-time on open-ended contracts (with hours averaged over a year).	Yes	Yes	Employee must be informed in writing of the objective condition determining the contract (e.g. completion of a specific task).
Israel	Yes	Yes	For the purposes of severance pay, a season is defined as working 60+ days over three consecutive months. A worker who works two consecutive seasons is entitled to severance pay.	Yes	Yes	None
Italy[a]	Yes	Yes	None	Yes	Yes	Cannot apply to work that is part of the employer's core business; project must be described in detail in the contract with specific reference to the final result.
Japan	Yes	Yes	None	Yes	Yes	None
Korea[b]	Yes	Yes	None	Yes	Yes	None
Luxembourg	Yes	Yes	Allowed for agriculture and tourism-related work and for retail, hospitality and transport work where there is a predictable increase in workload due to seasonal factors. Contract cannot be longer than ten successive months in duration. Renewal for more than two seasons transforms the contract to one of indefinite duration.	..	..	..
Netherlands	Yes	Yes	None	Yes	Yes	None
New Zealand	Yes	Yes	If employer does not outline in writing the way in which the contract will end (e.g. at the end of the season), the contract is assumed to be for an indefinite period.	Yes	Yes	If employer does not outline in writing the way in which the contract will end (e.g. at the end of the project), the contract is assumed to be for an indefinite period.
Norway	Yes	Yes	None	Yes	Yes	The work must be organised in projects and work requirements must be temporary.
Poland	Yes	Yes	None	Yes	Yes	None
Portugal	Yes	Yes	As well as FTCs, very short term contracts are also possible for seasonal agricultural work or tourist events, where the worker does not exceed 60 days per year with the same employer.	Yes	Yes	Available for civil construction work, public works and industrial assembly or repair.

Table 4.A1.1. **Seasonal and project work contracts** *(cont.)*

	Seasonal contracts			Project work contracts		
	Contract end can be end of season (without specific date)?	Do FTC rules apply?	Other restrictions/requirements	Contract end can be end of project (without specific date)?	Do FTC rules apply?	Other restrictions/requirements
Slovak Republic[a]	Yes	Yes	The performance of seasonal work which repeats every year and does not exceed eight months in the calendar year is an objective reason for renewing/extending FTCs more than three times within three years.	Yes	No	Project-work contracts allowed as contracts for work and services.
Slovenia[c]	Yes	Yes	None	Yes	Yes	The type of work for which project contracts can be made is defined in CAs The contract can exceed the normal two year limit if the project has a duration of more than two years and the contract is for the entire duration of the project.
Spain	Yes	Yes	None	Yes	Yes	Maximum duration is three years, with an extension of up to 12 months if allowed in CAs.
Sweden	Yes	Yes	The season must have a definite end date or the circumstances that cause the season to end must be specified. It is also possible to have a contract of indefinite duration where the worker is only required to work during specific seasons. In this case, dismissal rules for regular contracts apply.	Yes	Yes	The contract must have a specific end date or specify the circumstances that cause termination of employment. Other forms of project work contracts may be entered into by CAs.
Switzerland	Yes	Yes	None	Yes	Yes	None
Turkey	Yes	Yes	None	Yes	Yes	None
United Kingdom	Yes	Yes	None	Yes	Yes	None
United States[d]	Yes	Yes	None	Yes	Yes	None

.. Information not available; CA: Collective agreement; FTC: Standard fixed-term contract.

a) Project workers are dependent self-employed workers (DSEWs).

b) In principle, contracts without a fixed end date are prohibited in Korea. However, where the contract period is not specified (such as in the case of a seasonal or project-based engagement), a specific contract period is assumed by taking into account the intentions of the employer and employee and the nature of the work.

c) In Slovenia, a special civil law work contract can be made with a foreign worker for the purposes of seasonal work in the agriculture or forestry industries for up to 30 days up to three times within a calendar year.

d) In the United States, people are generally free to contract for various types of employment relationships. The United States does not have regulations specifically governing fixed-term, seasonal or project work contracts.

Source: 2013 OECD EPL questionnaire.

Table 4.A1.2. **Temporary work agency employment**

	Restrictions on renewals and duration of TWA assignments and contracts				Termination before end date of the TWA contract	
	Assignments with user firm	Fixed-term contracts	Open-ended contracts allowed?	Pay between assignments?[a]	Acceptable reasons	Termination cost/difficulty
Australia	No limit	No limit	Yes	Depends on arrangement between worker and TWA	General rules apply[b]	General rules apply[b]
Austria	No limit	An objective reason is needed for contract with TWA to be other than open-ended.	Yes	Yes	General rules apply[b]	General rules apply[b]
Belgium	Maximum duration is 3-18 months depending on the reason for using TWA workers.	General rules for FTCs apply. Assignments and contracts must be synchronised.	No	Not applicable	General rules apply[b]	General rules apply[b]
Canada	No limit	No limit	Yes	Not specified in legislation	General rules apply[b]	General rules apply[b]
Chile	Generally 90-180 days	General rules for FTCs apply.	Yes	Yes	General rules apply[b]	General rules apply[b]
Czech Republic	12 months maximum except if agreed by employee or to replace worker on maternity leave.	General rules for FTCs apply	Yes	Yes	General rules apply[b]	General rules apply[b]
Denmark	No limit	No limit	Yes	Not specified in legislation	General rules apply[b]	General rules apply[b]
Estonia	General rules for FTCs apply	General rules for FTCs apply	Yes	Yes	General rules apply[b]	General rules apply[b]
Finland	No limit	General rules for FTCs apply	Yes	Not specified in legislation	General rules apply[b]	General rules apply[b]
France	General rules for FTCs apply	General rules for FTCs apply. If fixed-term, assignments and contracts must be synchronised.	Yes	Yes with a floor 15%-25% above the minimum wage.	General rules apply.[b] Termination of assignment by the user firm is not *per se* a justified reason for dismissal or termination before the end date.	General rules apply[b]
Germany	24 months in the metalworking sector (set by CA). No limit elsewhere.	General rules for FTCs apply	Yes	Yes. If a CA applies, the worker is paid their normal wage. If there is no CA, they must be paid at least the minimum wage for the sector.	General rules apply[b]	General rules apply[b]
Greece	General rules for FTCs apply	General rules for FTCs apply	Yes	Yes, at minimum wage provided for in national CA	General rules apply[b]	General rules apply[b]
Hungary	Maximum duration of five years including any breaks of less than six months between successive contracts.	General rules for FTCs apply	Yes	Yes by agreement.	General rules apply[b]. In addition, contract can be terminated by the TWA if the user firm terminates the assignment.	General rules apply[b]. If the contract is terminated because the assignment is terminated by the user firm, the TWA must give the worker 15 days' notice.
Ireland	No limit	No limit	Yes	Yes	Worker's fault, worker capability, lack of assignments and end of assignment with the user firm.	General rules apply[b]

Table 4.A1.2. **Temporary work agency employment** *(cont.)*

	Restrictions on renewals and duration of TWA assignments and contracts				Termination before end date of the TWA contract	
	Assignments with user firm	Fixed-term contracts	Open-ended contracts allowed?	Pay between assignments?[a]	Acceptable reasons	Termination cost/difficulty
Israel	If an employee is employed by the same user firm continuously for more than nine months, the employee is deemed to be an employee of the user firm. A break of more than nine months is required for two assignments to not be considered successive.	General rules for FTCs apply	Yes	Not regulated	General rules apply[b]	General rules apply[b]
Italy	Yes, set out in CAs. The current agreement stipulates no limit for assignments if open-ended and 36 months if fixed-term.	Yes, set out in CAs. The current agreement stipulates 42 months for contracts if fixed-term.	Yes	Yes, the worker is paid an allowance	General rules apply[b]	General rules apply[b]
Japan	Three years maximum duration, with at least three months required between assignments for them to not be considered successive. In a limited number of specified occupations there is no maximum duration.	General rules for FTCs apply, except in specified occupations, where there is no limit.	Yes	Not regulated	General rules apply[b]	General rules apply[b]
Korea	Maximum duration: 24 months (six months in case of temporary and intermittent work).	Maximum two years per contract. No limit to the number of successive contracts.	Yes	Yes	General rules for FTCs apply	General rules for FTCs apply
Luxembourg	12 months maximum duration, with break of 1/3 contract duration between contracts.	12 months maximum duration, with break of 1/3 contract duration between contracts.	Yes	..	Serious reasons such as death of employer	Compensation for the remainder of the contract period must be paid.
Netherlands	No limit	After 3.5 years of cumulation of TWA-contracts, the last fixed-term contract will be altered into a contract for an indefinite period with the TWA.	Yes	Yes, workers receive 90% of average wage they received for previous assignment.	Capability and fault of the worker. End of assignment at the user firm and illness can be specified in advance as acceptable reasons for termination.	General rules apply[b]
New Zealand	No limit	General rules for FTCs apply	Yes	Depends on the agreement, generally no requirement for pay during non-work periods.	General rules apply[b]	General rules apply[b]
Norway	General rules for FTCs apply	An objective reason is needed for contract with TWA to be other than open-ended. General rules for FTCs apply.	Yes	Generally no	General rules apply[b]	General rules apply[b]

Table 4.A1.2. **Temporary work agency employment** *(cont.)*

	Restrictions on renewals and duration of TWA assignments and contracts				Termination before end date of the TWA contract	
	Assignments with user firm	Fixed-term contracts	Open-ended contracts allowed?	Pay between assignments?[a]	Acceptable reasons	Termination cost/difficulty
Poland	Maximum of 18 months with the same user firm within 36 month period, with a break of 36 months before working for the same user firm again.	General rules for FTCs apply	No	Not applicable	Termination is possible for reasons related to the worker and to the user firm.	Written notice of dismissal must be given three days in advance (for contracts up to two weeks) or one week in advance (for contracts of 2+ weeks). Compensation of up to three months' salary is paid for UNFD.
Portugal[c]	Maximum two years duration, with interval of 1/3 of contract duration between contracts.	Maximum two years duration, with interval of 1/3 of contract duration between contracts.	Yes	Yes, the worker is paid 2/3 of the previous wage or national minimum wage, whichever is more favourable.	General rules apply[b]	General rules apply[b]
Slovak Republic	No limit	General rules for FTCs apply	Yes	Yes	General rules apply[b]	General rules apply[b]
Slovenia	No limit	General rules for FTCs apply	Yes	Yes, as agreed in contract. Pay between assignments may not be lower than 70% of minimum wage.	General rules apply.[b] Termination of assignment by the user firm is not *per se* a justified reason for dismissal or termination before the end date.	General rules apply[b]
Spain	General rules for FTCs apply	General rules for FTCs apply	Yes	No	General rules apply[b]	General rules apply[b] plus four extra days of severance pay
Sweden	No limit	General rules for FTCs apply except if stipulated otherwise in CAs. The CA for blue-collar workers limits duration of fixed-term contracts between the agency and the worker to 12 months.	Yes	Required in main collective agreements.	General rules apply[b]	General rules apply[b]
Switzerland	Chains of assignments of the same workers on the same post in the same firm are not allowed.	General rules for FTCs apply	Yes	Yes if the employee is paid monthly, no if the employee is paid hourly.	Termination with notice can occur for any reason if specified in the contract. Termination for cause is always possible.	General rules apply,[b] but with shorter notice period (two days for < three months; seven days for 4-6 months).
United Kingdom	No limit	No limit	Yes	Generally no	General rules apply[b]	General rules apply[b]
United States	No limit	No limit	Yes	Not regulated	General rules apply[b]	General rules apply[b]

.. Not available; CA: Collective agreement; FTC: Standard fixed-term contract; UNFD: Unfair dismissal.

a) Assuming the worker has an open-ended contract and that he/she remains available for a new assignment.

b) Dismissal rules for fixed-term or open-ended contracts apply, depending on the type of contract in effect between the employee and the agency.

c) In Portugal, the maximum duration of assignments is six months when filling a vacancy that arises during a recruitment process or 12 months for a temporary increase in workload. The minimum duration of the interval between contracts does not apply for seasonal fluctuations in workload or for a new absence of a worker for whom the temporary worker was the replacement.

Source: 2013 OECD EPL questionnaire; OECD (2013), "Detailed Description of Employment Protection Legislation, 2012-2013", *www.oecd.org/els/emp/oecdindicatorsofemploymentprotection.htm*.