

# THE POLITICS OF TEMPORARY WORK DEREGULATION IN EUROPE: SOLVING THE FRENCH PUZZLE

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## **Abstract**

Conventional wisdom argues that faced with rigid labor markets and unemployment problems, governments choose to reduce the Employment Protection Legislation (EPL) of temporary workers. Labor market flexibility is thereby increased while insiders in permanent employment remain unaffected. Most countries with high EPL for permanent employees have indeed lowered regulations of temporary work. However, France went systematically in the opposite direction. Despite having both high EPL and high unemployment, by 2007 French temporary work regulations had become the highest in Western Europe. To solve this puzzle, I argue that the French left has attempted to prevent replaceability of regular by temporary workers. This higher replaceability is the result of a greater ability of French employers to replace permanent by temporary workers. Employers have an incentive to replace permanent by permanent workers in rigid labor markets but their ability to do so is contingent on two factors, which are most present in France. First, temporary workers must be able to do the job of a permanent worker which depends on skill specificity and temporary workers' education. Second, where wage coordination is high, labor's representatives have more control over the use of temporary employees at the company level. Using large N regression analysis I show that workers with more general skills in countries where wage coordination is low feel most replaceable. As a consequence, reforms that reduce temporary work regulations are most likely where coordination is high. While partisanship has no general effect, the left is more likely to tighten EPL of temporary workers in low coordination settings but more likely to deregulate it in high coordination settings. In-depth analysis of EPL reforms of temporary work regulations in France reveals that the left has indeed tightened regulations to compensate a particularly high degree of replaceability.

**Keywords:** insider-outsider, temporary work, employment protection legislation, replaceability, labor market reform

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## **THE POLITICS OF TEMPORARY WORK DEREGULATION IN EUROPE: SOLVING THE FRENCH PUZZLE**

A growing literature documents the increased dualization of welfare state policies and employment protection in Europe.<sup>1</sup> These changes have occurred against the backdrop of emerging conflicts between workers in permanent full-time contracts, the insiders, and those outside these contracts, the outsiders.<sup>2</sup> Welfare states have been reformed in ways that reduce the entitlements, protection and welfare of outsiders, understood here as precarious and unemployed workers.<sup>3</sup> The literature argues that governments choose to preserve existing institutional arrangements for insiders while reducing the entitlements and employment protection of outsiders. This trend reinforces pre-existing labor market segmentation and dualism whereby the core workforce in the primary labor market is protected while the secondary segment serves as a cost-buffer for fluctuations in economic activity.<sup>4</sup>

In this paper I consider the case of temporary workers, which represents a good case of outsiders. They have on average lower incomes, lower work satisfaction, and lower objective as well as subjective employment security than insiders.<sup>5</sup> The evolution of Employment Protection Legislation (EPL) for temporary workers in Europe (EU) does indeed confirm that most governments have reduced the EPL of temporary workers in the last two decades (see Table 1). There are three important exceptions to this trend: the UK, Ireland, and France. Both the UK and Ireland are liberal market economies, with very flexible labor markets<sup>6</sup> and comparatively few temporary workers (see Table 1). Though they have tightened the EPL for temporary workers, the resulting level in 2007 was still among the lowest in Western Europe.

The case of France is much more puzzling as its EPL for temporary workers in 2007 was the highest in Western Europe. This strongly suggest that France has been moving in the opposite direction than other European countries: whereas they all reduced protection of temporary workers, France has systematically tightened the regulation of temporary workers. Whereas left wing parties

in other EU countries have deregulated temporary work when in government, the left in France has repeatedly increased regulations of temporary work. This is puzzling because France has all the conditions that the literature identifies for reductions of outsider status, such as lower EPL for temporary workers, to occur. Regular workers in permanent employment, insiders, are well-protected. Unions have neither temporary workers among their members,<sup>7</sup> nor are they strong enough to protect them. France also had as much ‘need’ as other countries (e.g.: unemployment, trade openness) to deregulate temporary work.

The question this paper addresses is therefore why has France tightened EPL for temporary workers in contrast to all other European countries? I argue that left wing governments in France have systematically tightened EPL for temporary work because workers in permanent contracts fear being replaced by temporary workers in France much more than in other EU countries. This fear of replacement stems from the incentives that companies have to replace their workforce in rigid permanent contracts by temporary workers.

However, the ability of firms to replace permanent workers by temporary workers depends on three factors: skills specificity, ‘skill deviation’, and wage coordination. The higher the degree of skill specificity of regular workers the more difficult and unattractive it becomes for firms to replace them with temporary workers. Where firms have invested in workers’ skills, they are less likely to replace them with temporary workers. Firms are also more likely to prefer permanent contracts for workers with specific skills since workers will only invest in specific skills when their jobs are well-protected.<sup>8</sup> ‘Skill deviation’ between regular and temporary workers refers to the differences in skills that these two groups of workers have. Where they have more similar educational attainments, it becomes easier to replace permanent by temporary workers. Wage coordination enables labor to prevent both replaceability through its say on internal labor market organization and the detrimental effects of replaceability on wages, through its bargaining power over wages.

My argument unfolds in two steps. First, I show that permanent workers feel most replaceable where they have less specific skills and wage coordination is low. Second, I argue that the left is more likely to tighten regulations of temporary work where replaceability is high and *vice versa*. Consistent with my argument, workers in France are much more likely to think it is very easy for firms to replace them because of low skill specificity and low wage coordination as well as similar skill profiles between temporary and regular workers. Replaceable workers represent an important constituency for left wing parties in France. As a result, the French left has decided to tighten the protection of temporary work on numerous occasions in the last four decades with the explicit aim to prevent replaceability.

This paper is organized as follows. The next section reviews existing explanations of policies that target outsiders and shows that they cannot account for France's adjustment path of EPL for temporary workers. Using large N regression analysis the second section identifies and tests factors that affect replaceability, and in turn how these factors affect the probability that the left changes the protection of temporary workers. Section 3 then shows how this argument solves the puzzle of temporary work protection in France by looking at the politics of temporary work regulations reform in the last four decades. The last section concludes with some implications for the politics of pro-outsider reforms in France and beyond.

## **The puzzle of temporary work regulations in France**

### *Temporary workers and employment protection legislation*

Following the convention of the Organisation for Economic Co-operation and Development (OECD), I define temporary employment as including both workers in interim agencies and those on fixed-term contracts.<sup>9</sup> Besides having lower employment protection than regular workers, temporary

workers also earn on average less than regular workers, have lower eligibility to social benefits<sup>10</sup> and report having lower job satisfaction.<sup>11</sup>

Temporary work has been on the rise in most European countries. The EU15 share of temporary workers relative to total dependent employees increased from 10% in 1990 to 15% in 2007<sup>12</sup> and the number of temporary contracts has increased by an annual rate of 15-20% in the EU since the 1980s.<sup>13</sup> This hides important cross-national variation (see Table 1). Between 1983 and 2007, temporary work fell in Greece by 5.36 percentage points whereas it increased by 16 percentage points in Spain. The pattern in 2007 ranged from a low of 5.85% in the UK to a high of 31.66% in Spain. Among EU15 countries, France occupied the 6<sup>th</sup> highest position in terms of the size of its temporary work in 2007 and the third highest increase in temporary work over the period.

The OECD constructs a yearly index - EPL for temporary workers - that captures restrictions on the hiring and firing of temporary workers since 1985. The index is calculated through the weighting of different sub-components. A first division can be made between regulations of Temporary Agency Work (TAW) and those of Fixed Term Contracts (FTCs). The former includes three criteria: “types of work for which temporary work agency employment is legal”, “restrictions on number of renewals”, and “maximum cumulated duration of TAW contracts.”<sup>14</sup> Regulations of FTCs focus on “valid cases for use of fixed-term contracts“, “maximum number of successive FTC”, and “maximum cumulated duration of successive FTC.”<sup>15</sup>

The steepest declines in the EPL for temporary workers occurred in coordinated market economies such as Germany, Sweden, Belgium and Denmark. A second group of southern European mixed market economies (e.g.: Greece, Spain and Portugal) experienced drops which were slightly less important. Two countries did not experience a change in the overall index over the period under consideration: Austria and Finland. Only three countries saw an increase in the index. The UK and Ireland both tightened protection for temporary workers albeit from a very low level, so that they retained a comparatively flexible temporary work sector.

By contrast, France tightened EPL for temporary workers the most and had by 2007 the highest level of regulations on temporary work of Western Europe. There are three groups of potential explanations for the decline of EPL of temporary workers, none of them can satisfactorily account for what has happened in France: socio-economic pressures; partisanship and unions; and political as well as economic institutions. I now consider each group of explanations in turn.

<Table 1 about here>

### *Socio economic pressures*

A first set of determinants for lowering EPL is a deteriorating socio-economic situation which raises the incentives of governments to undertake unpopular reforms.<sup>16</sup> International organizations and academic scholarship alike have long voiced concerns about the detrimental effects of rigid employment regulations on labor market performance.<sup>17</sup> A number of studies have found that high EPL is associated with lower employment rates and higher unemployment rates.<sup>18</sup>

When faced with long standing high unemployment governments may therefore attempt to deregulate temporary work regulations. Most labor market reforms are indeed undertaken where there is poor economic performance<sup>19</sup> and this is particularly the case of two-tier labor market reforms that are often undertaken when unemployment is rising.<sup>20</sup> This narrative is consistent with the decision to lower protection of temporary workers in Spain and Italy, but if it were true this should also have happened in France. Indeed, unemployment has increased from less than 5% in the early 1970s to more than 10% by the mid-1990s.<sup>21</sup> The average unemployment rate in the period 1990-2000 was also higher in France than in some countries that deregulated at the margin such as Germany (see Table 2).

A second type of pressure concerns competitiveness. Deregulation of EPL was seen as important to keep wage inflation under control, thereby retaining trade competitiveness.<sup>22</sup> When faced with greater international competition and higher trade openness, governments may also be

more likely to deregulate EPL.<sup>23</sup> Globalization may result in regulatory competition between countries<sup>24</sup> or weaken the sectors that are more unionized,<sup>25</sup> thereby reducing the ability of labor to prevent deregulation. However, trade openness was similar or higher in France than in other southern European countries that deregulated their temporary work sector (see Table 2).

### *Partisanship and unions*

The power resource approach posits that more stringent EPL is conducive to wage earners' interests and so should be supported by left wing parties.<sup>26</sup> Consistent with this claim, there is historic evidence that the labor movement has played a key role in pushing for EPL in Switzerland, Germany, Denmark, Italy and Sweden.<sup>27</sup> Large N regression analysis of EPL has more mitigated results than the historical evidence, as some studies do not find a robust impact of partisanship. On the one hand, some econometric analyses do find support for the claim that liberalizing reforms are less frequent when governments are left leaning<sup>28</sup> and Rueda also finds that the left supports higher EPL.<sup>29</sup> On the other hand, Potrafke finds no evidence that left-wing parties were associated with changes in EPL.<sup>30</sup>

Moreover, many cases of successful labor market reforms that reduced EPL were undertaken by centre-left governments.<sup>31</sup> This could be explained through a 'Nixon goes to China' effect<sup>32</sup>, for instance because it is easier for left governments to elicit unions' agreement on a reform. With respect to EPL for temporary workers, left governments have reduced regulations in a number of EU countries (e.g.: the *Sozialdemokratische Partei* in Germany in 2004, the reform of workers' statutes by *Partido Socialista Obrero Español* in Spain in 1984 – see Table 2). However, this makes the decision of the left in France to tighten EPL for temporary workers even more surprising.

A potential explanation for both the left's reluctance to deregulate EPL for regular workers and its higher propensity to deregulate at the margin comes from the insider-outsider literature.<sup>33</sup> Insiders may only care about their own employment protection while being indifferent to the fate of

the unemployed and precarious workers. As a result, social democratic parties should promote higher protection of regular workers. Faced with the need to increase labor market flexibility, deregulating temporary work may be the only viable electoral choice for left wing parties. While the literature does not directly speak to left wing parties' preferences with respect to EPL of temporary workers, the expectation should be that more protected regular workers have less probability of becoming unemployed and are less affected by a weakly protected temporary work sector. As a result, where insiders are well-protected, left wing parties should not care about temporary workers. Consistent with this, the left has undertaken deregulation of temporary work in countries with high EPL for regular workers such as Spain and Greece (see Table 2).

However, all governments do face important electoral costs of reducing insiders' advantages, as policies create their own constituencies.<sup>34</sup> By protecting most existing employees reforms of temporary work are less likely to generate significant opposition.<sup>35</sup> Consistent with this, more than half the reforms in Europe since the 1980s have been 'two-tier' in the sense that they concerned only some portion of the workforce.<sup>36</sup> The problem with this explanation is that countries with low indices of EPL for regular workers (e.g.: Denmark and Belgium – see Table 2) have also lowered protection of temporary workers, while France which has a comparatively high EPL for regular workers has gone in the opposite direction.

The inclusiveness and strength of unions should also matter. Union density has traditionally been used by power resource scholars to gauge the strength of unions.<sup>37</sup> Unions with larger membership are expected to be stronger, and are in turn expected to better protect existing regulations of employment protection. French unions are particularly weak according to this measure, and in any case high union density countries have also reduced EPL for temporary workers (see Table 2). The low union density for temporary workers in France<sup>38</sup> also rules out the possibility that unions in France were more inclusive of temporary workers and hence took their interests into account more than elsewhere.

*Political institutions and varieties of capitalism*

Governments of all political stripes may be constrained by political and economic institutions. Fragmented states or coalition governments should be less able to undertake reforms.<sup>39</sup> If anything, France's majoritarian electoral system and centralized political system<sup>40</sup> should therefore increase the government's ability to reduce EPL for temporary workers. Where the role of social partners is institutionalized, for instance in corporatist countries,<sup>41</sup> governments should also be more limited in their abilities to implement reforms.<sup>42</sup> However, France is closer to a pluralist than a corporatist system and in any case certainly less corporatist than many other European countries<sup>43</sup> as interest groups mostly influence policy-making through lobbying and protests.<sup>44</sup>

Governments operate in distinct varieties of capitalism characterized by systematically different degrees of non-market coordination in key spheres of the economy such as training system, industrial relations, financial markets, and internal management.<sup>45</sup> In liberal market economies, flexible labor markets are needed to ensure wage moderation. Labor mobility is also conducive to knowledge transfer and hence to the radical innovations characteristic of liberal production systems.<sup>46</sup>

By contrast, in coordinated market economies a high EPL is seen as necessary to incentivize employees to invest in the specific skills on which their firms' production strategies rely.<sup>47</sup> As a result, employers and regular workers in large companies may have a common interest in deregulating temporary work. Employers may see in temporary workers the flexibility necessary to adjust to variations in economic activity while retaining the institutional complementarity necessary for their diversified production strategy.<sup>48</sup>

Governments in coordinated market economies may therefore have a greater incentive to facilitate the hiring and firing of temporary workers. Deregulation of temporary work promotes employment creation while retaining the institutional complementarities of the system. This narrative is consistent with the experience in Germany, but the expectations are less clear for France

since it has been categorized as a mixed market or statist economy,<sup>49</sup> which perhaps may have less incentives to deregulate at the margin. If this were true, the expectation should be that France follows a similar path to other mixed market economies and Statist countries. However, while Spain and Italy have indeed reduced EPL for temporary workers significantly over the past three decades, the reverse has happened in France (see Table 1).

<Table 2 about here>

### **Replaceability and the regulation of temporary work**

*Do regular workers benefit from lower protection of temporary workers?*

Insiders in permanent full-time employment have incentives to ask for higher than market-clearing wages where employment protection is high. The higher wage settlements restrict the access of the unemployed to the labor market.<sup>50</sup> High EPL increases the market power of insiders, who therefore are main defenders of the *status quo*, when the latter is defined by high levels of EPL.<sup>51</sup> Support for high levels of EPL will be higher where the bargaining power of insiders is high.<sup>52</sup> There is some evidence that insiders do indeed favor higher levels of job security than outsiders,<sup>53</sup> though this is contested by other authors who argue that insiders and outsiders have similar preferences for employment protection.<sup>54</sup>

To the extent that permanent employees are an important constituent for all political parties,<sup>55</sup> this should result in a *status quo* bias among policy makers.<sup>56</sup> Higher exposure of insiders to unemployment may push them to internalize the adverse effects of EPL on labor market re-entry and hence increase their support for EPL liberalization.<sup>57</sup> The implications for the politics of employment protection of temporary workers are less straightforward, but most of the literature seems to assume that regular workers are unaffected by such reforms. Governments are seen as more likely to reform

EPL for temporary workers because regular workers will fight against reductions in their protection but are unaffected by changes in EPL for temporary workers.

However, where regular workers have *de jure* high employment protection, employers will have an incentive to replace them with temporary workers. Conversely, if EPL for regular workers is very low, companies have no need to employ temporary workers. If this is true, lowering the EPL of temporary workers may make this process of substitution easier. In many respects, this is consistent with substitution effects between different types of jobs already documented in the economics literature.<sup>58</sup> Cross-national evidence shows that “policies making it easier to create temporary jobs on average raise the likelihood that wage and salary workers will be in temporary jobs” which may result in a “substitution of temporary for permanent workers.”<sup>59</sup> As a result, decreasing protection for temporary contracts may create incentives for firms to substitute permanent contracts by temporary jobs.<sup>60</sup>

Regular workers may therefore be adversely affected by lower protection of temporary workers. In the most extreme case a company may be more willing to fire a permanent worker and replace it by a temporary worker as the regulations of temporary work are reduced. Permanent workers may also be affected through the pressures that lower protection of temporary workers create. For instance, a large temporary work sector may put pressure on regular permanent workers by forcing them to also increase their flexibility.<sup>61</sup> Similarly, the substitution of permanent for temporary jobs in the economy has also been shown to reduce the welfare of the average worker.<sup>62</sup> I argue that the ability of employers to replace permanent by temporary workers is dependent on three factors: skill specificity, the educational profile of temporary relative to permanent workers, and the degree of wage coordination.

The first factor - skill specificity – matter because regular workers must have fairly general skills for the employer to replace them. The literature generally contends that workers with specific skills should be strong supporters of high EPL. Job security protects their investment in non-

transferable assets which would be wasted in the event of job loss.<sup>63</sup> What is less often realized is that the reverse is also likely to be true. Where skills are general, the pool of labor from which employers can choose workers is more homogenous. As a result, “the individual members...are substitutable for each other without serious loss of productivity.”<sup>64</sup> Where skills are specific, long term tenure is also required for the employee to acquire the necessary skill. Workers with specific skills are therefore more important to employers than those with general skills and employers are consequently both less willing and able to replace them with temporary workers. Consistent with this argument, workers with more general skills are more supportive of employment protection than those with specific skills: “employees who perform tasks that are easy to monitor and do not require specific skills demand more job security regulations.”<sup>65</sup>

Moreover, for employers to hire temporary workers instead of regular workers, the former need to have a similar educational level as regular workers. Where skills are general and regular workers have similar educational profile as temporary workers, employers will be most able to replace regular workers by temporary workers. Their ability to do so may also depend on the degree of wage coordination in the economy, which grants workers and their representatives some say in how internal labor markets are organized. Coordination is important because in highly coordinated economies, unions will be better able to segment temporary and regular work, so that insiders and unions should be less concerned about a growing unregulated temporary work sector. To sum up, I expect regular workers to feel more replaceable where skills are general and similar between regular and temporary employees, and wage coordination is low.

#### *The determinants of replaceability*

The concept of replaceability is particularly difficult to operationalize. The 2005 work orientation package of the International Social Survey Program (ISSP)<sup>66</sup> provides the most faithful representation of the concept of replaceability. More specifically, variable v56 asks respondents

“how easy or difficult it is for firms to replace you” and covers 43,440 respondents including most Western European countries. As shown in Table 3, French respondents have the highest share (25%) of those that say it is “very easy” to replace them followed by Ireland, Spain and Italy, whereas East Germany and Denmark have the lowest degree of replaceability. Considering the ratio of the percentage of respondents that say it is “very easy” to replace them by those that say that it is “very difficult” yields a similarly high fear of replacement in France (see Table 3).

Iversen and Soskice<sup>67</sup> and Cusack, Iversen and Rehm<sup>68</sup> have undertaken the most thorough attempt to date to measure in a systematic way the degree of skill specificity of individuals. They assign different degree of skill specificity to different ISCO occupation in the following way. Absolute skill specificity of an occupation is highest where (1) it has the highest number of sub-occupations<sup>69</sup> and (2) where it has the lowest empirical share in the labor force.<sup>70</sup> Using this scheme each occupation is assigned different degrees of skill specificity:<sup>71</sup> Craft workers, plant and machine operators and technicians have the highest absolute skill specificity, while clerks and service workers and market sales workers have the least specific skills.

To investigate the relation between skills and the fear of replaceability, I run a logistic regression using the 2005 ISSP survey. My dependent variable is binary: it is coded 1 if the respondent says it is “very easy for firms to replace them”, and zero otherwise. I control for a number of individual characteristics through the inclusion of dichotomous variables that take the value 1 if the respondent is young (under 25 years old), old (above 50 years old), female, working for the public sector<sup>72</sup>, and zero otherwise. My sample consists of eleven European countries<sup>73</sup> and I restrict my sample to respondents who are in full time employment.

In a first step, I test for the effect of belonging to the following occupations: professionals; legislators, senior officials and manager; technicians and associate professionals; plant and machine operators and assembler; elementary occupations; craft and related trade workers; and agricultural workers. The reference category is composed of clerks and service workers, which are the two

occupations with the two lowest indices of absolute skill specificity and also have low levels of skills. I expect workers in occupations with more specific skills to feel less replaceable. For a given degree of skill specificity, employers should also find it harder to replace workers with higher level skills (e.g.: legislators and managers). I include country fixed effects to control for unobserved country heterogeneity and to identify which country has the highest fear of replaceability when controlling for individual respondents' characteristics.

Column 1 in Table 4 shows the results for this logistic regression with robust standard errors clustered by country. Female and older respondents feel more replaceable, while working in the public sector (negative coefficient) and being a young worker (positive coefficient) has no significant effect. Employees working in professional, technical and legislative or managerial occupations feel less replaceable. This confirms that workers with high and specific skills feel less replaceable than those with low general skills (i.e.: my reference category - workers in service and clerical work). Workers with few specific skills in elementary occupations experience the same replaceability as my reference category. The archetype of the specific skill worker working in craft and related trades feel less replaceable than clerk and service workers. Thus, consistent with my expectations, workers with high and/or specific skills feel less replaceable than those with low and/or general skills.

However, occupations alone do not capture the higher replaceability of France, since the French country dummy (not shown) has the largest value among country dichotomous variables. In a second step, I therefore introduce a number of country level variables: EPL for temporary workers (defined earlier), a measure of wage coordination, and the unemployment rate as percentage of the labor force in each country for the year 2005. My measure of wage coordination, taken from Visser,<sup>74</sup> is a "five point classification of wage setting coordination scores". The index gives a score of 5 to countries where there are "economy wide bargaining", 4 where there is a combination of industry and economy wide bargaining, 3 where there is only industry bargaining, 2 where it's a mix

of industry and company level bargaining, and 1 where bargaining is fragmented and mostly at the company level. The results are shown in the second column of Table 4. Consistent with my expectations, respondents in countries with higher wage coordination feel less replaceable, controlling for individual level characteristics. The presence of a high unemployment rate also increases the feeling of replaceability. Crucially, a higher protection of temporary workers is associated with a lower fear of replaceability of full time workers. This confirms that protecting temporary workers does indeed reduce the fear of replaceability of permanent workers.

In column 3, I include three additional relevant country level variables: the size of the temporary work sector, EPL for regular workers and a proxy for the difference between the educational level of temporary and regular workers. As the ISSP does not include a variable allowing me to identify who temporary workers are, I compute as a proxy the standard deviation of educational attainment of respondents in each country. The higher the standard deviation the more I expect temporary and regular workers to have different educational attainments. My results suggest that a larger temporary work increases the fear of replaceability, while a higher protection of regular workers reduces the fear of replaceability. Consistent with my argument that differences in the educational backgrounds of temporary and permanent workers should matter, a larger standard deviation in the educational attainment of respondents is associated with a lower fear of replacement. In other words, where differences in educational attainments between respondents are larger, respondents on average fear being replaced less.

< Table 3 about here >

< Table 4 about here >

#### *Determinants of EPL for temporary workers across Europe*

I expect tightening of EPL for temporary workers to be most likely where replaceability is high. Replaceability is highest when workers' skills are general, wage coordination is low, and when

educational attainment between temporary and permanent workers is most similar. Thus, tightening of EPL for temporary workers will not happen where coordination is high and skills are specific (e.g.: Germany), where the temporary work sector is small (UK) or where temporary workers have very different skills to regular workers (e.g.: Spain). France is the only country where all conditions were present which explains why left wing parties tightened EPL for temporary workers much more in France than elsewhere. To test my argument more systematically, I carry out a large N regression analysis of the determinants of EPL for temporary workers in the rest of this section, while the next section looks at France specifically.

Three methodological challenges arise. First, data on workers' perceived ease of replacement is only available in 2005 and for 13 EU countries (see Table 3), which makes any systematic large N investigation particularly challenging. Second, the level of the OECD index for EPL of temporary workers changes very little over time: for the EU15, there were only 20 cases of reductions and five cases of increases in EPL of temporary workers between 1985 and 2007. Third, I have shown that replaceability is affected by EPL of temporary workers, hence analyzing how EPL of temporary workers is influenced by replaceability suffers from severe endogeneity problems.

To address these limitations I test my argument by looking at how variables which affect replaceability in turn determine changes in EPL for temporary workers. Investigating changes in EPL for temporary workers over time means I cannot test directly the impact of replaceability but this has the advantage of bypassing the problem of endogeneity. Given how little the OECD EPL of temporary work changes, my empirical strategy relies on a different dataset for my dependent variable: the *fondazione Rodolfo de Benedetti database (fRDB)*.<sup>75</sup> This database has the advantage that it is much more refined in its inclusion of different reforms of temporary work, that it identifies which type of temporary work is affected by the reform, and that it starts as early as 1980. I code changes in the flexibility of regulations in three domains of temporary employment to construct the

following three dependent variables: temporary agency work, fixed term contracts and introduction of new types of temporary contracts.

Note that a reform measure of temporary work in the FRDB dataset has a “positive sign...if it increases the flexibility of the system (i.e.: if it makes easier or cheaper for firms to dismiss workers)” and a negative sign if it increases regulations. Each dependent variable is therefore coded 0 where there are no changes in legislation, +1 where a reform increasing flexibility has happened and -1 where the reform reduced flexibility. I then construct a fourth dependent variable which is a sum of changes in the latter three domains of temporary employment in a given year and is therefore scaled from -3 to +3.

My sample covers the 1980-2007 period for 14 EU countries. I test the impact of variables that I have shown determine individuals’ fear of replaceability: EPL of regular workers and the size of temporary work (both lagged once). More importantly, I include a measure of wage coordination discussed earlier, which I recode for simplicity into a dichotomous variable that takes value 1 where wage coordination is high (i.e.: when the index is 3, 4 or 5), and zero otherwise. For partisanship, I create a dichotomous variable that takes value 1 if the left controls more than 50% of cabinet shares and zero otherwise.<sup>76</sup>

There are no accepted measure of national skill specificity for which there is data across time and countries. However, to the extent that the degree of skill specificity of an economy is fully co-determined by the degree of economic coordination of each type of capitalism<sup>77</sup>, wage coordination is an appropriate proxy and indeed would have risked being collinear with skill specificity. As a rough proxy for skill specificity, I also test for the effect of the share of the labor force in a craft occupation<sup>78</sup> instead of wage coordination. More problematic is the lack of comparative data on the difference in education between temporary and regular workers, which means I am unable to satisfactorily test for this using large N analysis. To address this lack of valid data, I test for the inclusion of a very rough proxy, the share of the population that have completed upper secondary

education, and analyses this dimension in more depth in the qualitative section of this paper that considers the case of France.

Throughout, I control for socio-economic pressures (OECD statistics) such as unemployment (lagged and expressed as a percentage of the labor force) and trade openness (lagged and defined as exports plus imports as a share of GDP). I run ordered logistic regression with robust standard errors clustered by country. Both country and time fixed effects are included to account for unobserved country or time heterogeneity.

The results are presented in Table 5. In line with my expectations, high coordination increases the likelihood of governments passing flexibilization reforms and low coordination reduces the probability of tightening regulations for all three dependent variables (columns 1 to 3). Higher overall EPL and higher unemployment also makes it more likely that governments flexibilize temporary agency work, consistent with the argument that more rigid labor markets that have higher unemployment incentivize governments to flexibilize at the margin (column 1). However, unemployment and overall EPL have no significant effect on new contracts nor on fixed term contracts (column 2 and 3). A larger temporary work sector increases the probability of tightening regulations on fixed term and temporary agency contracts where no country effects are included (not shown here), but the effect becomes insignificant when country effects are included. Interestingly greater trade openness is associated with more regulations of new types of temporary contracts (column 3). Last but not least, the left has no statistically significant independent effect (columns 1 to 3) consistent with the mixed historical record of left wing governments regarding EPL reforms in the last three decades.

In columns 4 to 7, I investigate the determinants of my fourth dependent variable, total changes in EPL for temporary work, which is a sum of changes in three dimension specific dependent variables. A rigid overall EPL and coordination increases the likelihood of introducing a reform that deregulate temporary work. To investigate whether the left has a different effect in high

and low coordination countries, I interact coordination and left control of the government in column 5. Calculating the marginal effect of the left at different levels of coordination reveals that in low coordination settings left wing governments are more likely to tighten regulations and less likely to deregulate temporary work.<sup>79</sup>

In column 6, I replace my measure of coordination by the Hall and Gingerich index of coordination, which confirms that coordination increases the likelihood of flexibilizing temporary work regulations. In column 7, I replace my coordination variable by the share of workers in the craft occupation, as a proxy for skill specificity, and include the share of the population that has completed upper secondary education as a proxy for the difference in education between temporary and permanent workers. The former has a positive significant effect on the probability of deregulating reforms confirming that countries with higher skill specificity are more likely to deregulate temporary work. My education variable has no effect, which given its limitation as a proxy cannot be interpreted as evidence that differences between temporary and regular workers do not matter.

Overall, these findings are therefore consistent with the argument that factors which increase replaceability make it more likely that governments tighten regulations of temporary work. In the next section I test my argument on France, which allows me to substantiate causality and to demonstrate that my explanation does indeed solve the French puzzle.

< Table 5 about here >

### **The Left and temporary work regulations in France**

*Why is replaceability higher in France?*

Table 3 shows that the share of respondents that say it is very easy for the firm to replace them was the highest in France. I have argued and shown using regression analysis that replaceability can

be expected to be higher in countries where wage coordination is low, skills are more general, and where temporary workers and regular workers have more similar educational backgrounds. Consistent with my expectations, countries which have a low degree of replaceability such as Germany, Denmark and Sweden (see Table 2) have high wage coordination scores. Denmark scored between 3 and 5 in the 1980s, 3 in the 1990s and between 3 and 4 in the 2000s. Similarly, Sweden scored between 3 and 5 throughout the 1980s and between 3 and 4 in the 1990s. Germany scored 4 throughout the period under consideration. By contrast, France which had the highest level of replaceability was scored 2 throughout most the period under consideration.

A second reason for higher replaceability in France lies with the nature of workers' skills. Two aspects are particularly important. The first concerns the specificity of skills. It is notoriously difficult to measure the degree of specificity of skills, and even harder to compare skill specificity across countries. With this caveat in mind, the weight of the evidence does suggest that the French labor force has general skills, and in any event much more general skills than typical coordinated market economies like Germany and Sweden. French workers' skills were particularly low and general in the 1980s when the left in France tightened regulations surrounding temporary work. Hancké argues that there was a large pool of low and semi-skilled workers carrying out very narrow tasks in the 1980s. For instance, 60% of the workforce was low or semi-skilled in 1982.<sup>80</sup> The general nature of skills in turn stems partly from the educational system. In contrast to Germany, French workers mostly have general skills such as "mathematics and languages" which allow them to carry out administrative and quality control tasks.<sup>81</sup>

Four additional indicators can further substantiate the claim that France has more general skills. A first indicator is the amount of company training that workers receive. Company training is a good indication of how specific workers' skills are since employees acquire specific skills mostly through on the job training.<sup>82</sup> In 2001, 67% of French employees declared receiving no employer training in the past 5 years, compared with 44.5% for Germany and 34.2% in Sweden. Moreover,

this represented a 5 percentage points increase from 1996 where 61.7% had declared receiving no training.<sup>83</sup>

Second, over time the occupational structure in France has made replaceability more of a problem. The share of manual workers (*ouvrier*) has been falling from 30.2% to 22.9% in the period 1982-2006, which was mostly driven by a fall in the share of unskilled manual workers. In contrast, the same period witnessed the rise of the share of employees (*employés*) from 24.7% to 29.3%, mostly driven by the increase in the share of unskilled employees.<sup>84</sup> Unskilled employees include clerks and service workers which are in occupations requiring much less specific skills<sup>85</sup> than occupations such as craft workers which I have shown to feel less replaceable in the previous section.

A third metric for how specific skills are is the share of the workforce carrying out repetitive tasks. Variable q20\_a of the third (2000) European Working Conditions Survey asks respondents whether their job involves repetitive tasks of less than 1 minute.<sup>86</sup> Between 20% and 22% of respondents in Denmark, Austria, Italy said yes, compared with 30.16% in France. Fourth, the same survey reveals the share of the workforce carrying out complex tasks, which is also a good indicator of how replaceable a worker can be. The share of respondents carrying out complex tasks were 76.54% in Austria, 67.2% in Denmark, and 65% in Germany compared to 50.8% in France.

In addition to wage coordination and the degree of skill specificity, the gap in educational attainment between permanent and temporary workers also conditions the extent to which employers are able to substitute regular workers by temporary workers. The share of an age group that completed secondary education increased tremendously in France and reached 75% in 1995.<sup>87</sup> Using the fourth wave of the European Social Survey,<sup>88</sup> Table 6 shows that France has a very high share of temporary workers with upper secondary education, indeed it is one of the highest in the EU.<sup>89</sup> It is also the only country with Belgium where the share of temporary workers with upper secondary education is higher than for permanent workers.

To sum up, France is the only country that has low wage coordination, general skills and highly educated temporary workers. Although the UK and Ireland also have general skills and a small educational gap between temporary and regular workers, permanent workers there are not well protected, thereby giving little incentives to employers to substitute permanent by temporary workers. Although Germany and Austria have well-protected permanent workers, high wage coordination and more specific skills hinder employers' ability to replace permanent by temporary workers. Lastly, although Spain evolves in a similar type of Capitalism as France, and temporary work has also expanded fast there, the share of temporary workers with only upper secondary education was much lower than in France.<sup>90</sup>

#### *Political implications of high replaceability in France*

In the last 2007 election, more than 60% temporary workers voted for left wing parties (see Table 6) and nearly twice as many temporary workers as regular workers voted for the extreme left.<sup>91</sup> The tightening of temporary work regulations that the left has undertaken in the last three decades was therefore beneficial to these workers. This involved provisions for equal pay between regular and temporary workers, 'end of contracts bonuses' to compensate for the precarious nature of temporary work, as well as better access to training and paid holidays. Legal restrictions on the use of temporary workers can also be beneficial to them. For instance, thanks to the regulations in place in France, the *Court de cassation* ruled in 2004 that certain agency workers employed by automobile companies should be transferred to permanent contracts.<sup>92</sup>

However, temporary workers alone cannot push for better work conditions. These more stringent regulations of temporary work were also in line with many of the left's constituents' concerns for replaceability. With respect to occupations, 55% of technicians, 58% of machine operators and a staggering 62% of workers in elementary occupations voted for left wing parties in the first round of 2007 (see Table 6). Those occupations were characterized by a high

implementation of temporary work: 28% of respondents in elementary occupations, and nearly 17% of those in craft work, reported being on limited duration contracts. As many as 41% of respondents in elementary occupations and 33% working as plant and machine operators declared it was “very easy” for the firm to replace them (see Table 6). Key constituents of left wing parties in France are therefore adversely affected by temporary work and feel very replaceable.

In the rest of this section I show that since legislative activity targeted at temporary work began, the aim of the left has consistently been to prevent replaceability by increasing the cost of temporary work and limiting the number of valid cases where a company can hire temporary workers. Temporary work has been a major concern of policy makers in France since the late 1970s. There has been a tremendous rise in the share of temporary employment in the French economy since 1983 from under 4% to more than 12% since the end of the 1990s.

Temporary agency or interim work was legalized by the right wing government in a law passed in 1972<sup>93</sup> and implemented through a government decree in 1973.<sup>94</sup> While the practice of interim work had *de facto* been tolerated before, this law was meant to promote interim work by providing it with a clearer legal framework. Right wing policy makers saw this new form of work as positive to fulfill both economic and social functions.<sup>95</sup> At the time of the law, only 1% of the active labor force was in interim work<sup>96</sup> and the user company did not have to pay the same wage as their actual workers.<sup>97</sup> Similarly, the first law concerning the *Contrat a Durée Déterminées*, the main type of FTC in France, was passed in March 1979.<sup>98</sup> As with the 1972 law, the 1979 law was meant to promote this type of employment by reducing the legal uncertainty that employers faced when using these types of contracts.<sup>99</sup> The *rapporteur* of the national assembly argued that achieving their objective to increase the reliance on FTCs required removing all the apprehensions that employers had felt regarding these contracts before the law.<sup>100</sup> The French employers’ association not surprisingly welcomed this law which made it easier and cheaper to hire FTCs.<sup>101</sup>

The 1972 and 1979 laws passed by the right set in motion the process of replaceability,<sup>102</sup> which would thereafter motivate the labor movement and the left to tighten regulations of temporary work. Writing in 1981, Robert Fossaert argues that this growing segment of precarious work can lead to a twofold pressure on wages.<sup>103</sup> These pressures operate directly through the lower wages that temporary workers receive but also indirectly through competition and substitutions effects with respect to regular employees. The union movement was already opposed to lowering temporary work regulations at the time because they thought this would bypass collective agreements and regulations on collective dismissals.<sup>104</sup> Similarly, the detractors of the 1979 law on the left saw the law as promoting the ‘*précarisation*’ of employment.<sup>105</sup>

It is in this context that Mitterand, the first socialist president of the fifth republic, is elected on the 21<sup>st</sup> of May 1981.<sup>106</sup> In his speech to the national assembly in July 1981, the newly elected Prime Minister Mauroy announced the government’s intention to tackle temporary work by introducing “improved controls on temporary work agencies and employers recruiting workers on FTCs. Workers employed on a temporary basis will also be given improved rights.”<sup>107</sup> The *Auroux* report which represented the basis for the upcoming legislative activity of the new government attacked the use of “inferior forms of employment” that have been used by employers in the form of agency work or FTCs.<sup>108</sup> The left government identified the fast expansion of temporary work as resulting from companies’ attempts to avoid costs of permanent employment by using temporary workers.<sup>109</sup>

Three ordinances were issued by the government in 1982 to prevent replaceability. With the 24th of February 1982 ordinance, the legislator stated his intention to “avoid that jobs that are normally permanent are undertaken in a permanent fashion by workers holding precarious contracts.”<sup>110</sup> Temporary work was as result surrounded by a number of conditions and formalities. The new law tightened the set of reasons under which companies can hire FTCs or agency workers. Specifically, temporary employment can be used for a temporary replacement of a regular worker, to

cope with the occurrence of an unexpected and significant increase in economic activity, or to carry out a specific task in pre-authorized sectors.<sup>111</sup> Maximum duration, authorization procedures and sanctions for non-compliance with regulation were also tightened.<sup>112</sup> Specifically, the new maximum duration of the mission cannot exceed six months, whereas there were no time limits before.<sup>113</sup> The legislator also introduced higher civil sanctions of the employer if they terminate the contract before the end of the agreed duration.<sup>114</sup>

New rights were also granted to temporary agency workers. The legislation granted for the first time equal rights in terms of wages<sup>115</sup> and collective advantages between interim and regular workers in the user company. For FTCs, equality of rights concerned paid holidays, right to training, sick leave, and indemnities for accidents. Interim agency workers received an increase in the ‘insecurity bonus’ of up to 15% of their total gross earnings at the end of their missions. FTCs workers were for the first time also made eligible to a similar end of contract indemnity equal to 5%.<sup>116</sup>

In March 1986, the right won the legislative elections with a clear intention to relax restrictions on temporary work.<sup>117</sup> The 11<sup>th</sup> of august ordinance removed restrictions on FTCs and agency work to “give more freedom to companies in human resources management.”<sup>118</sup> The available conditions to employ a FTC were expanded by abandoning the list of cases in which hiring temporary workers is authorized.<sup>119</sup> Further, the administrative authorization for companies to hire temporary workers was suppressed and the maximum duration of contracts was extended to 24 months.<sup>120</sup>

When Mitterand won a second term as president in 1988, the left also returned to the government with Michel Rocard as its Prime Minister. A bill was presented to the parliament by the left on the 6<sup>th</sup> of December 1990 to place “limitations on the use that employers may make of these forms of employment” and mainly involved re-introducing restrictions on temporary work that had been removed by the 1986 decree: the use of temporary work was limited to only three cases, the

maximum duration was shortened back to 12 months, and employers were prevented from hiring temporary workers to cope with increased economic activity. This bill was generally favored by Socialist MPs but generated “fierce opposition by employers.”<sup>121</sup>

The main employers’ organization insisted that legislators should let the social partners negotiate on the issue of temporary work. Most of the socialist party wanted the bill to be debated in the parliament directly, but the government nevertheless chose to let the social partners negotiate it.<sup>122</sup> The 12<sup>th</sup> of July 1990, a law was passed that incorporated most of the agreement that the social partners had reached. Its objective as stated in its first article 1 was to “claw back the share of precarious jobs by facilitating their transformation into stable employment.”<sup>123</sup> Union representatives were granted the right to evaluate the increase in precarious employment in the annual negotiation between social partners, both at the sectoral and company level. Sanctions for unlawful use of fixed term and temporary employment were also reinforced.<sup>124</sup> Generally speaking, the 1990 law therefore represents a return to a more strict limitation of cases where a company can use precarious contracts.<sup>125</sup> The maximum duration was fixed at 18 months compared to 24 months in the 1986 law.<sup>126</sup> The principle of equal pay between temporary and permanent workers was also reinforced by extending provisions that existed to interim workers to fixed term contracts.<sup>127</sup>

From 1993 to 1997, the right controlled the government, with no major changes in the legislation of temporary work. In June of that year, the left won the legislative elections bringing Lionel Jospin to the post of Prime Minister. A social modernization bill was approved by the parliament in 2001. Articles 122-124 of this law entailed a number of initiatives concerning the fight against precarious work, aimed at restricting temporary contracts. The exceptionality of temporary work was re-affirmed.<sup>128</sup> As before, the aim of the law was to prevent companies from replacing permanent workers by temporary workers for work to be carried out that is in fact of a permanent nature. The law also further harmonized the ‘instability indemnity’ of agency and fixed term contract

workers by setting the indemnity for both at 10% of their total gross income of the worker. Last but not least, sanctions and controls were further reinforced.<sup>129</sup>

In sum, the left has consistently tightened regulations of temporary work whereas the right has supported the deregulation of the sector. The main employer organization in France<sup>130</sup> was strongly opposed to further restrictions on temporary work in both in 1990 and 2001, and was supportive of the right's deregulation in 1986. By contrast, unions have throughout the period been concerned about replaceability. For instance, the two biggest unions in France, the CGT and CFDT,<sup>131</sup> have been systematically opposed to temporary work and calling for more regulations to prevent replaceability.<sup>132</sup> Unions' have also increased their presence across the main temporary work agencies such as Randstadt or Manpower and have created novel organizational structures within their confederations such as the *CFDT Services-Interim* which aims to represent temporary workers.<sup>133</sup>

< Table 6 about here >

## **Conclusion**

In the last three decades, temporary work has been on the rise across Europe both in the form of temporary agency work and fixed term contracts. Temporary workers are on average less well off than permanent workers in terms of pay, access to training, job satisfaction and job security. The expansion of temporary work is partly the result of companies attempting to bypass what they see as rigid regulations of permanent contracts by hiring temporary workers. In many cases, it is also the result of governments' policy choices to create flexibility at the margin of the core employment relation, while leaving the status of insiders unaffected.

Whereas most countries have reduced temporary work regulations, France has moved in the opposite direction with left wing governments tightening regulations on a number of occasions. All

the conditions that the literature identifies to explain deregulation at the margin in other countries (high socio-economic pressures and insulated insiders) are also present in France. I argue that solving the puzzle of French temporary work regulations requires challenging an implicit assumption of most of the literature, namely that permanent workers are unaffected at worst and at best even benefit from deregulation at the margin.

Specifically, there are good theoretical reasons and strong empirical support for the claim that some permanent workers are adversely affected through the ability of employers to replace regular by temporary workers. Workers in occupations characterized by more general skills and in countries that have low wage coordination and a large temporary work sector feel most replaceable. As a result, governments, especially when controlled by left wing parties, are more likely to tighten temporary work regulations in low coordination settings with large temporary work sector but more likely to reduce temporary work regulations in countries with high wage coordination. Thus, tightening of EPL for temporary workers will not happen where coordination is high and skills are specific (e.g.: Germany), where the temporary work sector is small (UK) or where temporary workers have very different skills to regular workers (e.g.: Spain).

By contrast, where a sufficiently large number of permanent workers feel replaceable, as in France, the politics of temporary work regulations may be significantly altered and the gains from tightening temporary work regulations may outweigh the costs of not deregulating. Consistent with my argument, I have shown that the high share of replaceable workers in France is the result of three factors: general skills, low wage coordination and similar educational background between permanent and temporary workers. Faced with stringent regulations of permanent employment, French employers are both willing and able to replace permanent by temporary workers. Both temporary workers and permanent workers that feel most replaceable are important constituents of France's left wing parties. French unions have also been strongly opposed to deregulation of temporary work. As a result, the left has systematically tightened temporary work regulations (in

1982, 1990, and 2001). The right is in principle more favorable to deregulation, which is also supported by employers, and has indeed deregulated temporary work in 1986.

My findings have implications for the dynamics of EPL of temporary work across Europe but also for other policy domains in France. Indeed, the political implications of this higher replaceability of French workers has also manifested itself in other domains of the French welfare state. In 2007, total public social expenditures as a share of GDP in France was the highest of Western Europe<sup>134</sup> and its statutory minimum wage one of the highest.<sup>135</sup> My findings also suggest that the trend towards deregulation of temporary work across the EU may become unstable and be reversed, if replaceability starts affecting core constituents of the left. There is evidence that this may have started happening in other European countries that share the French combination of protected insiders but do not have sufficiently high coordination to avoid substitution between workers. Spain is a case in point: after nearly two decades of deregulation, the unions started promoting temporary work regulations by the end of the 1990s, and the government passed a law in 2006 (Law 43/2006) that tries to promote permanent contracts and restrict the expansion of temporary work.<sup>136</sup>

Last but not least, two broader implications emerge from this paper. First, highly coordinated market economies may paradoxically lead to more durable divides between workers, since permanent workers are more insulated from the pressure of a growing temporary work sector. Crucially, this higher protection of insiders does not stem from higher *de jure* EPL but rather from the more specific skills that insiders possess and from the higher degree of wage coordination. Second, the argument and evidence presented in this paper challenges the premise of much of the insider-outsider literature that reductions in the working conditions and benefit eligibility of outsiders has no impact on insiders. This may question the relevance of dualism as an analytical category. Further research should therefore investigate whether and why more coordinated market economies may be more dualized and how replaceability may be shaping the politics of reforms that affect outsiders in other policy domains.

## Tables

**Table 1: EPL for temporary workers and size of temporary work sector in the EU**

Countries	<i>EPL temporary workers</i>		<i>Temporary workers (share of total dependent employees)</i>		
	2007-1985	2007	2007	2007 - earliest year	Reference year
France	0.57	3.63	15.08	11.74	1983
Ireland	0.38	0.63	8.05	1.94	1983
UK	0.13	0.38	5.85	0.35	1983
Austria	0	1.5	8.89	2.9	1995
Finland	0	1.88	15.96	-2.38	1997
Spain	-0.25	3.5	31.66	16.07	1987
Portugal	-0.63	2.75	22.36	7.96	1986
Netherlands	-1.19	1.19	18.08	12.26	1983
Greece	-1.62	3.13	10.88	-5.36	1983
Denmark	-1.75	1.38	9.05	-3.4	1984
Belgium	-2	2.63	8.65	3.26	1983
Sweden	-2.45	1.63	17.45	2.85	1997
Germany	-2.5	1.25	14.64	4.68	1984
Italy	-3.5	1.88	13.21	6.6	1983

Source: OECD statistic website, own calculations.

Note: EPL for temporary workers is a composite index created by the OECD.

**Table 2: Context and governments responsible for changes in the protection of temporary workers in the EU**

Countries	Unemployment rate	Openness	Reform direction ( $\Delta$ EPLtemp) by year and party in power when reform occurred	Union density	EPL regular workers	Index of wage coordination
Austria	3.82	75.38	No changes	41.26	2.92	4.11
Belgium	10.88	131.48	Fall (1997): coalition Christian democrat – left dominant (53.3%)	54.00	1.68	4.43
Denmark	7.43	72.96	Fall (1995): coalition liberal - left dominant (75%)	76.03	1.65	3.46
Finland	11.71	62.19	No change in index	77.89	2.42	3.68
France	9.63	46.41	Rise (1990): left (70%)	8.92	2.34	2.11
Germany	7.84	51.92	Fall (1994): right CDU-CSU-FDP (76%) Fall (1997): right (83.3%)	29.37	2.65	4.00
Greece	9.74	47.93	Fall (2003): left (100%)	31.68	2.25	4.00
Ireland	11.50	138.47	Rise (2003): right (100%)	44.48	1.60	3.86
Italy	11.27	43.55	Fall (1997): centre left coalition (50%) Fall (1998): centre left coalition (49.6%) Fall (2000): centre left coalition (57.9%) Fall (2001): centre right coalition (40%) Fall (2003): centre right coalition (70%)	37.44	1.77	3.36
Netherlands	5.81	114.81	Fall (1999): grand coalition	24.75	3.07	4.11
Portugal	5.43	62.24	Fall (1996): left (77.78%) Fall (2004): right (94.69%)	25.26	4.38	2.82
Spain	19.29	45.32	Fall (1994): left (100%) Rise (2001): Right (100%)	16.04	3.12	3.42
Sweden	7.37	69.49	Fall (1993): right (61.90%) Fall (1997): left (100%)	81.56	2.87	3.54
UK	7.85	53.28	Rise (2002): left (100%)	33.91	1.16	1.00

Sources: EPL regular workers (1990-2000), openness (average 1990-2000), unemployment rate (average 1990-2000) and union density (average 1990-2000) taken from the OECD statistic website. Reforms to change the EPL temporary work index developed by the OECD, party in power follows the comparative political dataset coding of % of cabinet seats held by the left, centre and right (% in brackets refers to right or left parties, excluding centre) and wage coordination index, average 1980-2007, taken from Visser (2009).

**Table 3: Perceived ease with which workers feel that firms can replace them**

Country	% Respondents that say “very easy”	% respondents that say “very easy” divided by those that say “very difficult”
France	25	6.25
Ireland	19.1	1.95
Portugal	18.2	2.94
Spain	13.9	1.56
Flanders	12.5	1.51
Finland	12.2	1.53
Great Britain	11.9	1.23
West Germany	11.8	1.76
Sweden	11.5	1.72
Norway	11.1	1.63
Switzerland	11	1.39
East Germany	10.5	2.23
Denmark	10.2	0.99

Source: ISSP 2005, work orientation package, own calculations by cross-tabulation of question on replaceability by country in the sample.

**Table 4: The determinants of replaceability across Europe**

Columns	(1)	(2)	(3)
<b>Reference: Clerks and service workers</b>			
Professionals	-0.55698*** (0.153)	-0.55698*** (0.153)	-0.55698*** (0.153)
Technical / associate professionals	-0.57816*** (0.149)	-0.57816*** (0.149)	-0.57816*** (0.149)
Legislators, senior officials/managers	-0.99378*** (0.283)	-0.99378*** (0.283)	-0.99378*** (0.283)
Agriculture	-0.35512 (0.437)	-0.35512 (0.437)	-0.35512 (0.437)
Craft and related trade workers	-0.46438*** (0.174)	-0.46438*** (0.174)	-0.46438*** (0.174)
Plant/machine operators/assemblers	0.15947 (0.145)	0.15947 (0.145)	0.15947 (0.145)
Elementary occupations	0.15476 (0.159)	0.15476 (0.159)	0.15476 (0.159)
Female respondent (dummy 0, 1)	0.31059* (0.181)	0.31059* (0.181)	0.31059* (0.181)
Young respondent (16-25 years old)	0.47330 (0.354)	0.47330 (0.354)	0.47330 (0.354)
Old respondent (>50years)	0.36940*** (0.098)	0.36940*** (0.098)	0.36940*** (0.098)
Public sector (government or public company)	-0.06423 (0.087)	-0.06423 (0.087)	-0.06423 (0.087)
<b>National level variable</b>			
Wage coordination index		-0.21901*** (0.026)	-0.22742*** (0.016)
Unemployment rate		0.27236*** (0.015)	0.21035*** (0.014)
EPL temporary workers		-0.55514*** (0.046)	-0.07209*** (0.022)
Temporary workers (% of total dependent employees)			0.01816*** (0.002)
Standard deviation education years			-0.04386*** (0.003)
EPL regular workers			-0.10508*** (0.025)
Constant	-2.40318***	-2.40318***	-1.669493
Observations	4,167	4,167	4,167
Country Fixed effects	Yes	Yes	Yes
Method	Logistic regression (clustered standard errors)		

Note: Robust clustered standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Dependent variable is share of respondents that say it is very easy for firms to replace them.

**Table 5: The determinants of changes in temporary work regulations across Europe since 1980**

Columns	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent variable	Temporary work	Fixed term contracts	New contracts	Sum change in temporary work, fixed term contracts and new contracts			
EPL overall (lagged)	4.35151*** (1.288)	0.63351 (0.758)	0.10399 (0.551)	1.52461*** (0.585)	1.64512*** (0.617)	0.30989 (0.286)	0.72874*** (0.279)
Coordination dummy	2.31395** (1.169)	0.97483*** (0.305)	17.94986*** (2.504)	1.62248*** (0.412)	1.45664*** (0.489)		
Left power dummy	0.10776 (1.136)	-0.48197 (0.473)	1.26078 (0.831)	-0.35894 (0.500)	-1.72954* (0.932)	-0.12355 (0.393)	-0.09697 (0.588)
Temporary work (lagged)	0.04291 (0.093)	-0.13482 (0.111)	-0.05097 (0.212)	-0.05585 (0.098)	-0.05654 (0.100)	-0.16558*** (0.027)	-0.17123*** (0.049)
Openness (lagged)	0.00122 (0.034)	-0.00413 (0.030)	-0.34135** (0.160)	-0.00861 (0.019)	-0.01810 (0.019)	-0.00696** (0.003)	-0.00213 (0.006)
Unemployment rate (lagged)	0.52491*** (0.158)	0.14874 (0.118)	0.31586 (0.340)	0.28515*** (0.081)	0.25878*** (0.069)	0.17278*** (0.053)	0.21904*** (0.063)
Coordination*Leftpower					1.78705* (1.069)		
Index of coordination (Hall gingerich)						1.73958** (0.822)	
Craft and related trades (share of total labor force)							6.68843** (3.388)
Upper Secondary (share of)							0.01559 (0.010)
Constant cut1	9.20668**	-0.62930	-47.90839***	-0.29818	-1.10969	-4.64452***	-2.24942
Constant cut2	20.03174***	5.42097	15.40653	2.43972	1.65440	-1.93809	0.30383
Constant cut3				8.23153**	7.53333**	3.65046***	5.00742***
Constant cut4				9.69215***	9.00245**	5.05314***	6.74354***
Constant cut5				11.56874***	10.88481***	6.72582***	n.a
Observations	269	269	269	269	269	247	139
Country FE	Yes	Yes	Yes	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Dependent variables coded using the fRDB database.

Note: All dependent variables are scaled following the FRDB convention, that is increases in the dependent variable refer to reforms that introduce more flexibility (i.e.: reduce regulations and/or protection of temporary work). Ordinal logistic regression with robust standard errors (clustered by country) in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

**Table 6: Occupations, fear of replacement, votes, types of contracts and education in France**

<i>By occupation</i>	Employment status (1)			% respondents (2)		% respondents voted left in 2007 presidential election (3)
	Unlimited	Limited	No contract	Very easy	Not very easy	
Legislators, senior officials and managers	83.59	4.96	11.44	78.72	21.28	22.6
Professionals	84.16	10.96	4.87	78.1	21.9	56.2
Technicians and associate professionals	83.6	11.86	4.54	79.55	20.45	55.6
Clerks	73.89	16.85	9.26	69.4	30.6	51.78
Service workers and shop and market sales workers	69.26	20.48	10.26	66.56	33.44	45.61
Craft and related trade workers	74.89	16.39	8.73	87.62	12.38	44.77
Plant and machine operators and assemblers	78.97	11.87	9.16	66.39	33.61	58.13
Elementary occupations	58.31	28.9	12.79	58.02	41.98	62.93
<i>For all occupations</i>						
Voted in 2007 for the left (4)	53.05	61.44	45.41			
Only upper secondary education completed (5)	42.3	48.4	n.a.			

(1) Source for employment status by occupations: European Social Survey data pooled 2, 3 4 rounds (i.e.: for surveys carried out in years 2004, 2006 and 2008). Note: own calculations using cross-tabulation of respondents' employment status and isco occupations.

(2) Source for fear of replacement by occupation: ISSP (2005). Note: own calculations using cross-tabulation of respondents' fear of replacement and isco occupations.

(3) Source: European Social Survey (round 4, year 2008), own calculations. Note: Party voted for in last national election (first round), share of respondents voting for different parties by occupation

(4) Source for votes by employment status: European Social Survey (round 4, year 2008). Note: Party voted for in last national election (first round of the election), share of respondents voting for different parties by types of contracts (pooled across all occupations). Own calculations using cross-tabulation of last vote and employment status.

(5) Source: European Social Survey (round 4, year 2006). Note: this level of education refers to ISCED 3 level and refers to those that have only completed upper secondary education and so does not include respondents that have completed upper secondary and tertiary level education.

General note: Left includes votes for the following parties in France: French communist party, socialist party, the radical party, communist revolutionary league (*Ligue Communiste Revolutionnaire* - LCR), Workers' struggle (*Lutte Ouvrière* - LO), and various green parties. Detailed results of cross-tabulation available from author.

## Notes

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<sup>68</sup> T. Cusack, Torben Iversen, and P. Rehm, "Risks at Work: The Demand and Supply Sides of Government Redistribution," *Oxford Review of Economic Policy* 22, no. 3 (2006).

<sup>69</sup> They infer that the workers in an occupation have more specific skills when the occupation is broken down in many sub-occupations.

<sup>70</sup> A smaller a percentage of the workforce in an occupation makes the skill associated with that occupation harder to re-use should the worker seek another job.

<sup>71</sup> See the excel skill classifications table available from Torben Iversen's website available at:

<http://www.people.fas.harvard.edu/~iversen/SkillSpecificity.htm>

<sup>72</sup> The public sector dummy equals 1 when the respondent declares that they are "currently working for the government"

<sup>73</sup> My sample consists of all EU countries available in the ISSP sample: West Germany, Great Britain, Ireland, Norway, Sweden, Spain, France, Portugal, Denmark, Flanders, Finland.

<sup>74</sup> See: Visser, "ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2007," (2009).

<sup>75</sup> FRDB, "Frdb-Iza Reforms Database," ed. Andrea Catania Massimo Anelli, Gaetano Basso, Tommaso Colussi, Paola Monti, Magdalena Zhelyazkova and Werner Eichhorst (2007).

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<sup>77</sup> Hall and Soskice, *Varieties of Capitalism the Institutional Foundations of Comparative Advantage*.

<sup>78</sup> Own calculations, from the European Labour Force Survey, available from:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_lfs/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/introduction)

<sup>79</sup> Note that my results are robust to the inclusion of various measures of union strength (results available from author): union density, bargaining coverage and union centralization.

<sup>80</sup> Bob Hancké, "Revisiting the French Model: Coordination and Restructuring in French Industry," in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. Peter Hall and David Soskice (Oxford: Oxford University Press, 2001), 308.

<sup>81</sup> *Ibid.*, 324.

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[http://www.insee.fr/fr/methodes/default.asp?page=nomenclatures/pcs2003/liste\\_n1.htm](http://www.insee.fr/fr/methodes/default.asp?page=nomenclatures/pcs2003/liste_n1.htm); The data can be accessed at: [http://www.insee.fr/fr/themes/detail.asp?ref\\_id=ir-martra10&page=irweb/martra10/dd/martra10\\_paq2.htm](http://www.insee.fr/fr/themes/detail.asp?ref_id=ir-martra10&page=irweb/martra10/dd/martra10_paq2.htm)

<sup>85</sup> See skill specificity scores of different occupations developed by Iversen and Soskice, "An Asset Theory of Social Policy Preferences." and Cusack, Iversen, and Rehm, "Risks at Work: The Demand and Supply Sides of Government Redistribution."

<sup>86</sup> To cross-tabulate between occupations and share of respondents that carry out repetitive task.

<sup>87</sup> Hancké, "Revisiting the French Model: Coordination and Restructuring in French Industry," 322.

<sup>88</sup> ESS, "European Social Survey Round 4 Data," ed. Norway – Data Archive and distributor of ESS data Norwegian Social Science Data Services (2008).

<sup>89</sup> For reasons of space, I only report the numbers for France in Table 6, the numbers for other EU countries are available from the author.

<sup>90</sup> The share of temporary workers that have completed only upper secondary education was 17.6% in Spain, compared to 48.4% in France (Source: ESS round 4, own calculations by cross-tabulating employment status with highest educational attainment variable. Results available from the author).

<sup>91</sup> Detailed analysis of temporary workers' voting records for different political parties in the 2007 elections available from the author.

<sup>92</sup> Antoine Math, Decision Clarifies Rules on Use of Temporary Agency Workers in Automobile Industry (2004).

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<sup>123</sup> Author's translation from the following quote: "de faire reculer la proportion d'emplois précaires en facilitant leurs transformations en emplois stables" (Henry Blaise, "Les Contrats Précaires Après La Loi Du 12 Juillet 1990," *Droit Social* 1, no. Janvier (1991), 11)

<sup>124</sup> Regarding the unlawful use of fixed term and temporary contracts by a company, any infractions concerning the duration or number of renewals of contracts, and the minimum waiting period for using consecutive a temporary contract on the same post.

<sup>125</sup> Blaise, "Les Contrats Précaires Après La Loi Du 12 Juillet 1990."

<sup>126</sup> EIRR, "Features on France: National Agreements on Fixed Term Contracts and Temporary Work," *European Industrial Relations Review* 197, no. June (1990), 13, 14.

<sup>127</sup> With the new 1990 law, the rate is now 6% for fixed term contracts and 10% for interim workers.( Blaise, "Les Contrats Précaires Après La Loi Du 12 Juillet 1990.").

<sup>128</sup> "Fixed term contracts, whatever their motives cannot aim or result in the permanent placement of an employee linked to a normal and permanent activity of the company" (author's own translation, source: Article

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L122-1 – see : Marie Raveyre, Social Modernization Bill Seeks to Strengthen Right to Work (2001 [cited 2012]); Claude Roy-Loustaunau, "La Lutte Contre La Précarité Des Emplois : Une Reformes Discrète Mais Non Sans Importance," *Droit Social* 3, no. Mars (2002).

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<sup>130</sup> Movement for French Companies (*Mouvement des Entreprises de France* – MEDEF). Interviews with MEDEF representatives carried out in July and September 2011 further confirmed that their preference is for reducing the level of EPL.

<sup>131</sup> CGT stands for “Confédération Générale du Travail” and CFDT for Confédération Française Démocratique du Travail”

<sup>132</sup> Interviews with CFDT and CGT federal and confederal representatives carried out in July and September 2011.

<sup>133</sup> Interviews with CFDT Services Federation and CGT interim and temporary work Federations carried out in July and September 2011.

<sup>134</sup> Online OECD Social Expenditure Database.

<sup>135</sup> By 2007 it had reached more than 60% of the median wage (see: Paul Champsaur, Martine Durand, Gilbert Cette, Francis Kramarz, and Etienne Wasmer. *Rapport du groupe d’experts sur le Salaire minimum interprofessionnel de croissance* (2009), 45.

<sup>136</sup> Esteban Villarejo, “Spain: Temporary agency work and collective bargaining in the EU.” *European Industrial Relations Observatory* (2008).