

Stemming the tide of temporary contracts

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The high proportion of Spanish workers on temporary contracts is an anomaly in Europe and has prompted the Spanish government to adopt ambitious labor reform.

Even before the onset of the crisis, Spain had one of the highest unemployment rates in Western Europe. When the economy was at its peak, unemployment in Spain was still higher than that in the United Kingdom at the worst of the crisis. Three years into the crisis, unemployment rates in Spain - already affecting 1 in 5 workers - continue to rise, and productivity is waning.

Faced with this rapidly unraveling situation, the Spanish government recently decided to launch a raft of measures aimed at labor reform.

But will the legislative changes pull Spain out of recession more quickly? And will they create more permanent jobs for the nation's disaffected youth, for whom unemployment has reached 43 percent, the highest in the E.U. by far, and more than double the European average?

IESE professors [José Ramón Pin](#) and [Guido Stein](#), together with research assistant Salvador Plaza, [explore these issues](#) by comparing Spanish legislation with that of other large European countries.

Temporary contracts in Spain

One of the weaknesses of Spain's labor model is the prevalence of workers on temporary contracts, which represent around a third of all salaried employees. This is an anomaly in

Europe and has led to bitter divisions between permanent and temporary workers.

For this reason, the Spanish government's reform package puts strong emphasis on labor stability. Specifically, it establishes new requirements and conditions for work and service contracts.

- Work and service contracts can last no more than three years, and are extendable for up to a year through a collective labor agreement. If the working relationship continues beyond these time limits, the company will have to recognize, in writing, the worker's new condition as a permanent employee.
- After working on consecutive temporary contracts for more than two years (or a period of 30 months), a worker will automatically become a permanent employee.
- Severance will be the equivalent of eight days' pay per year of service, but this amount will increase progressively one day per year up to 2015. As of January 1, 2015, severance will be fixed at 12 days per year worked.

Labor laws in Europe

Labor laws in the United Kingdom, Germany and France are markedly different from those in Spain. This should come as little surprise, as labor practices and legislation are the result of each country's specific cultural, economic and historical experiences.

- The British system is distinguished by its liberal nature. Despite establishing a series of minimums (number of hours worked, minimum wage, etc.), temporary contracts are subject to very few regulations, and it is generally left to market forces to determine their conditions.
- In France, there are several measures aimed at making temporary contracts less attractive than permanent ones. There is also a time limit of 18 months, after which a worker must be given a permanent contract. French law considers workers with temporary contracts to be in a more precarious situation, so they earn a 10 percent bonus on their gross salary if they aren't offered a permanent contract.
- Temporary contracts were practically non-existent in Germany until the Employment Promotion Act of 1985, which allowed for the creation of temporary jobs as a means of counteracting zero hiring or the destruction of jobs. As in the case of France, German law limits the length of temporary contracts, albeit to two years - although this can be extended to drive specific policies. For example, start-up companies can offer short-term contracts without providing any objective justification in their first four years of activity.

Where is Spain heading?

Given the markedly different social circumstances in Spain, the authors believe that it would be impossible to carry out a total deregulation of the labor market in line with the British model.

As the authors point out, the recently passed Spanish labor reform act is closer to French policies, although it does include a number of particularities, such as the greater power granted to trade unions and collective labor agreements.

Is this the right path to follow, though? The authors believe that German labor laws would be better to emulate, as they would allow for the introduction of measures to foster the creation of new companies and jobs.

And lest we forget, of the three countries considered in the research, Germany has had, by far, the best employment performance throughout the crisis.

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