

Fixed-term contracts

Are fixed-term contracts a stepping stone to a permanent job or a dead end?

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ELEVATOR PITCH

Fixed-term contracts have become a major form of employment in Europe. Available evidence about whether temporary jobs are a stepping stone to a permanent employment or are a dead end is mixed. The usefulness of these jobs depends on the institutional and economic environment. Fixed-term contracts can be a pathway from unemployment to employment, but their potential as a stepping stone to permanent employment is undercut if there is a strong degree of segmentation in labor markets. If that is the case, the labor flexibility motive of employers ends up dominating the screening function in offering a fixed-term contract.

KEY FINDINGS

Pros

- ⊕ Introducing fixed-term contracts can create additional job opportunities for labor market entrants and reduce unemployment.
- ⊕ Fixed-term contracts allow for the screening of workers in the context of strict dismissal protection.
- ⊕ Under specific conditions, fixed-term contracts can be effective stepping stones to permanent employment.
- ⊕ Fixed-term contracts are most effective in paving the way to stable employment if combined with training.

Cons

- ⊖ In a system with strict employment protection for open-ended contracts, the liberalization of fixed-term contracts can lead to a severe dualization of the labor market. A dual labor market effectively reduces employers' willingness to hire on a permanent basis.
- ⊖ Fixed-term contracts can be associated with low productivity jobs and a significant wage gap
- ⊖ In severely segmented labor markets, fixed-term contracts tend to be associated with alternating periods of temporary employment and phases of unemployment.

AUTHOR'S MAIN MESSAGE

There is no consistent evidence about whether fixed-term contracts are a stepping stone to permanent employment or a dead end. The role of temporary jobs depends on the institutional and economic environment. Fixed-term contracts can be pathways from unemployment to employment in particular for labor market entrants such as young people, but their potential as a stepping stone to permanent employment is undercut if an area of temporary jobs with high turnover emerges, contributing to a severely segmented labor market. Available evidence calls for reforms to ease the regulatory divide in national labor markets and/or to strengthen the vocational training content during fixed-term jobs, in particular when offered to young people.

