2009-07-02

PRESS RELEASE

The use of fixed-term contracts and the labour adjustment in Belgium

by Emmanuel Dhyne and Benoit Mahy

NBB Working Paper No 169 - Research Series

This paper aims to analyse the use of forms of flexible employment, more specifically fixed-term contracts and temporary jobs, and their impact on labour adjustment dynamics within Belgian firms. This analysis is based on data drawn from the social balance sheets filed by companies in Belgium, which is broken down by type of contract and covers not only on the number of people employed as at the end of each accounting year, but also entry and exit movements registered during the course of the year. This information also enabled an assessment of labour adjustment costs per type of work contract, using the methodology put forward by Goux, Maurin and Pauchet (2001).

A sample of large enterprises observed over the period from 1998 to 2005 suggests that 54% of these firms use fixed-term employment contracts for part of their staff, while 60% resort to using temporary agency workers. However, the vast majority of salaried workers (95%) have an open-ended employment contract. An econometric analysis shows that flexible types of work contract are not only used to facilitate the short-term adjustment of the labour force, but also as an instrument for initially selecting workers and later leading to permanent hirings. The findings further suggest that the introduction of flexible forms of work contract can help meet long-term cost-minimising objectives, if firms design their production processes in such a way that some jobs do not require specific skills and can be done by temporary workers.

As regards labour adjustment dynamics, the results of the research indicate that fixed-term contracts are an essential adjustment variable to cope with unexpected changes in demand or labour costs. As far as labour adjustment costs are concerned, the findings suggest (i) that there is a certain degree of asymmetry between recruitment and contract termination costs and (ii) that the costs associated with hiring or firing under a fixed-term contract are negligible compared with those under an indefinite-term contract. So, (i) the average cost of one recruitment under an open-ended contrat would work out at 45% of the cost associated with one redundancy in a firm and (ii) the costs involved with hiring under a fixed-term contract would be 100 times smaller.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
1000 Brussels
phone + 32 2 221 46 28
www.nbb.be
Company's number:
0203.201.340 – RLP Brussels