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Abstract

Temporary work has expanded in the last three decades with adverse implications for inequalities. Because temporary workers are a constituency that is unlikely to impose political costs, governments often choose to reduce temporary work regulations. While most European countries have indeed implemented such reforms, France went in the opposite direction, despite having both rigid labor markets and high unemployment. My argument to solve this puzzle is that where replaceability is high, workers in permanent and temporary contracts have overlapping interests, and governments choose to regulate temporary work to protect permanent workers. In turn, replaceability is higher where permanent workers' skills are general and wage coordination is low. Logistic regression analysis of the determinants of replaceability—and how this affects governments' reforms of temporary work regulations—supports my argument. Process tracing of French reforms also confirm that the left has tightened temporary work regulations to compensate for the high replaceability.

Keywords

insider-outsider, temporary work, employment protection legislation, replaceability, labor market reform.

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A growing literature documents the increased dualization of welfare state policies and employment protection in Europe.¹ Welfare states have been reformed in ways that reduce the entitlements, protection, and welfare of outsiders, understood here as precarious and unemployed workers.² The literature argues that governments choose to preserve existing institutional arrangements for insiders while reducing the entitlements and employment protection of outsiders. In this paper I consider the case of temporary workers, which represents a good case of outsiders. The expansion of temporary work also has political implications, as these workers have distinct political preferences³ and distinct preferences for labor-market policies.⁴ More importantly, like other labor-market outsiders, temporary workers have lower electoral turnout, raising the risk of an increasingly large segment of the population being politically excluded.⁵

The emergence of temporary work also has wide-ranging implications for inequality. Besides having lower objective and subjective employment security,⁶ temporary workers also earn comparatively less, report lower job satisfaction, and have less access to training.⁷ In Europe, temporary workers earn, on average, 20 percent less than their permanent counterparts and the pay gap remains when controlling for differences in seniority, skills, and sector.⁸ The Organisation for Economic Co-operation and Development (OECD) estimates that the pay penalty of working with a temporary contract may be as large as 25 percent when controlling for gender, age, working hours, and education.⁹

As a result, temporary workers are twice as likely to be in poverty than permanent workers (12 percent compared to 6 percent).¹⁰ Wage inequality therefore increases as the regulation of temporary work is reduced and the employment protection of regular workers is raised.¹¹ Temporary workers are also less often eligible for unemployment benefits and social insurance,¹² and they raise particularly acute challenges for private insurance systems.¹³ Being employed on a temporary work contract also has adverse effects on health.¹⁴

To the extent that temporary work is not evenly distributed among different groups of the population, these contracts also exacerbate preexisting inequalities between workers of different gender, age, and educational levels.¹⁵ Women are more likely to be temporary workers, thereby increasing gender inequality.¹⁶ Youth are particularly affected with 42 percent being on temporary contracts in the EU27.¹⁷ More than 20 percent of those with lower levels of education are in the temporary work sector, twice as much as for those with higher education.¹⁸ Last but not least, among low-income workers, the pay gap between temporary and permanent workers is even larger.¹⁹

The evolution of Employment Protection Legislation (EPL) for temporary workers in the European Union (EU) therefore has important implications for inequality and for the politics of labor-market policies. Despite the adverse consequences of temporary work for inequality, poverty, and economic efficiency, the ensuing politics of temporary work regulations entail a particular challenge for governments. Specifically, it is particularly difficult for governments to increase the protection of temporary workers because they are unlikely to impose political costs on governments that neglect their interests. To the extent that governments need to choose which group to

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

Countries	EPL temporary workers		Temporary workers (share of total dependent employees)		
	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.

protect or to focus on, they are unlikely to choose temporary workers. Thus, temporary work should be construed as a case of the political challenges that governments face to protect politically weaker groups.

Most governments have indeed reduced the EPL for temporary workers in the last two decades (see Table 1). There are three important exceptions to this trend: the United Kingdom, Ireland, and France. Both the United Kingdom and Ireland are liberal market economies, with very flexible labor markets²⁰ and comparatively few temporary workers. Though they have slightly 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 suggests that France has been moving in the opposite direction from other European countries. Whereas left-wing parties in other EU countries have deregulated temporary work when in power, the left in France has repeatedly increased regulation of temporary work. This is puzzling because France has all the conditions that the literature identifies for reductions of outsiders' 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,²¹ 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 politically powerful workers in permanent contracts have overlapping interests with the relatively powerless group of temporary workers. This then allows temporary workers to benefit from the political strength of permanent workers. The degree of overlap in the interests of permanent and temporary workers depends on the extent to which firms can replace permanent workers with temporary workers. Where replaceability is low, the degree of overlap between temporary and permanent workers' interests is more limited. As a result, the ability of temporary workers to benefit from the greater political strength of permanent workers disappears. In turn, 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 with 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 because workers will only invest in specific skills when their jobs are well protected.²² "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 workers with 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 of preventing replaceability.

This paper is organized as follows: The next section reviews existing explanations of policies that target outsiders and argues that they cannot explain the case of France. The second section tests the determinants of both replaceability and changes in the protection of temporary workers. Section three then shows how this argument solves the French puzzle. 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 OECD, I define temporary employment as including both workers in interim agencies and those on fixed-term contracts.²³ Aside from having lower employment protection than regular workers, temporary workers also earn less, on average, than regular workers; have lower eligibility for social benefits;²⁴ and report having lower job satisfaction.²⁵

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 percent in 1990 to 15 percent in 2007²⁶ and the number of temporary contracts has increased by an annual rate of 15-20 percent in the EU since the 1980s.²⁷ 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 percent in the United Kingdom to a high of 31.66 percent in Spain. Among EU15 countries, France occupied the sixth-highest position in terms of the size of its temporary work in 2007 and the third-highest increase in temporary work over the period under consideration.

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 subcomponents. 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.”²⁸ 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.”²⁹

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 that 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 United Kingdom and Ireland both slightly 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: socioeconomic pressures; partisanship and unions; and political as well as economic institutions. I now consider each group of explanations in turn.

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

Countries	Unemployment rate	Openness	Reform direction (Δ 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): center left coalition (50%) Fall (1998): center left coalition (49.6%) Fall (2000): center left coalition (57.9%) Fall (2001): center right coalition (40%) Fall (2003): center 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 (average 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, center and right (% in brackets refers to right or left parties, excluding center) and wage coordination index (average 1980-2007) taken from Visser (2009).

Socioeconomic Pressures

A first set of determinants for lowering EPL is a deteriorating socioeconomic situation that raises the incentives of governments to undertake unpopular reforms.³⁰ International organizations and academic scholarship alike have long voiced concerns about the detrimental effects of rigid employment regulations on labor-market performance.³¹ A number of studies have found that high EPL is associated with lower employment rates and higher unemployment rates.³²

When faced with long-standing high unemployment, governments may therefore attempt to deregulate temporary work. Most labor-market reforms are indeed undertaken where there is poor economic performance³³ and this is particularly the case of two-tier labor-market reforms, which are often undertaken when unemployment is rising.³⁴ 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 increased from less than 5 percent in the early 1970s to more than 10 percent by the mid-1990s.³⁵ 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.³⁶ When faced with greater international competition and higher trade openness, governments may also be more likely to deregulate EPL.³⁷ Globalization may result in regulatory competition between countries³⁸ or weaken the sectors that are more unionized,³⁹ 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 sectors (see Table 2).

Partisanship and Unions

All governments face important electoral costs of reducing insiders' advantages, as policies create their own constituencies.⁴⁰ By protecting most existing employees, reforms of temporary work are less likely to generate significant opposition.⁴¹ 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.⁴²

The ideology of the political party in power may also affect the government's decision to deregulate EPL. Following a "Nixon-goes-to-China" logic,⁴³ it could be politically easier for the left to undertake deregulatory labor-market reforms, for instance because it is easier for left governments to elicit unions' agreement on a reform. While it may indeed be easier for the left to pass labor-market reforms, it has strong electoral and ideological reasons not to do so.

Indeed, the power resource approach has long shown that more stringent EPL is conducive to wage earners' interests and so should be supported by left-wing parties to improve the bargaining power of wage earners relative to employers.⁴⁴ As Botero et al. argue, "regulations protecting workers... are introduced by socialist, social-democratic, and more generally leftist governments to benefit their political constituencies."⁴⁵ The working class has strong preferences for higher employment protection and represents a major constituency of the left.⁴⁶ The left therefore has clear electoral incentives to increase—or at least not reduce—EPL.

While the left has in a very limited number of cases passed labor-market reforms reducing EPL,⁴⁷ the historic evidence shows that the labor movement has played a key role in pushing for EPL in Switzerland, Germany, Denmark, Italy, and Sweden.⁴⁸ The vast majority of large N regression analyses of EPL also suggest the left is less likely to reduce the protections for permanent workers. Some econometric analyses find support for the claim that liberalizing reforms in general are less frequent when governments are left leaning.⁴⁹ In an analysis of EPL in eighty-five countries, Botero et al. conclude that the power of the left is associated with higher levels of labor regulation.⁵⁰ Rueda also finds significant empirical support for the claim that in the long run the left is associated with higher EPL in a sample of sixteen industrialized countries.⁵¹ Similarly, Somogyi finds that left-wing governments are more likely to support higher EPL.⁵² Conversely, an International Monetary Fund (IMF) study⁵³ and Algan and Cahuc⁵⁴ show that conservative governments are more likely to reduce EPL. Only one study by Potrafke finds no evidence that left-wing parties were associated with changes in EPL.⁵⁵

The expectations concerning the impact of partisanship on EPL on temporary workers are less straightforward. The insider-outsider literature suggests that insiders may only care about their own employment protection while being indifferent to the fate of the unemployed and precarious workers.⁵⁶ Faced with the need to increase labor-market flexibility, deregulating temporary work may be the only viable electoral choice for left-wing parties that are reluctant to reduce the protections for regular workers. Although this 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 and they should have higher incentives to find flexibility at the margin.

Left governments have indeed reduced the regulations of temporary work 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, 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 the 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 for EPL. Power resource scholars have traditionally used union density to gauge the strength of unions.⁵⁷ Unions with larger memberships are expected to be stronger, and are, in turn, expected to better protect existing regulations of employment. 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 France⁵⁸ 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.⁵⁹ If anything, France's majoritarian electoral system and centralized political system⁶⁰ 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,⁶¹ governments should also be more limited in their abilities to implement reforms.⁶² However, France is closer to a pluralist than a corporatist system and, in any case, certainly less corporatist than many other European countries⁶³—as interest groups mostly influence policy making through lobbying and protests.⁶⁴

Governments operate in distinct varieties of capitalism characterized by systematically different degrees of nonmarket coordination in key spheres of the economy such as training systems, industrial relations, financial markets, and internal management.⁶⁵

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.⁶⁶

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.⁶⁷ 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.⁶⁸

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,⁶⁹ which perhaps may have fewer 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).

The Politics of Temporary Work Regulation

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.⁷⁰ 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.⁷¹ Support for high levels of EPL will be higher where the bargaining power of insiders is high.⁷² There is some evidence that insiders do indeed favor higher levels of job security than outsiders,⁷³ though this is contested by other authors who argue that insiders and outsiders have similar preferences for employment protection.⁷⁴

To the extent that permanent employees are important constituents for all political parties,⁷⁵ this should result in a status quo bias among policy makers.⁷⁶ Higher exposure of insiders to unemployment may push them to internalize the adverse effects of EPL on labor market reentry and hence increase their support for EPL liberalization.⁷⁷ 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.⁷⁸ For instance, 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.”⁷⁹ As a result, decreasing protection for temporary contracts may create incentives for firms to substitute permanent contracts for temporary jobs.⁸⁰

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 permanent workers and replace them with temporary workers as the regulations of temporary work are reduced. Permanent workers may also be affected through the pressures that reduced protection of temporary workers creates. For instance, a large temporary work sector may put pressure on regular permanent workers by forcing them to also increase their flexibility.⁸¹ Similarly, the substitution of permanent for temporary jobs in the economy has also been shown to reduce the welfare of the average worker.⁸² 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—matters 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 nontransferable assets, which would be wasted in the event of job loss.⁸³ 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.”⁸⁴ 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.”⁸⁵

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 profiles as temporary workers, employers will be most able to replace regular workers with 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

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
East Germany	10.5	2.23
Denmark	10.2	0.99

Source: ISSP 2005, work orientation package.

Note: own calculations by cross-tabulation of question on replaceability by country in the sample.

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 where wage coordination is low. Where replaceability is high, temporary and permanent workers may have overlapping interests as the regulation of the temporary work generates externalities that affect permanent workers. The degree to which interests overlap in turn determines the politics of temporary work regulation. Where their interests overlap, temporary workers are able to benefit from the greater political strength of permanent workers.

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)⁸⁶ 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 percent) 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 Soskice⁸⁷ and Cusack, Iversen and Rehm⁸⁸ 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 occupations in the following way: Absolute skill specificity of an occupation is highest where (1) it has the highest number of sub-occupations⁸⁹ and (2) where it has the lowest empirical share in the labor force.⁹⁰ Using this scheme, each occupation is assigned different degrees of skill specificity:⁹¹ 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,⁹² and zero otherwise. My sample consists of eleven European countries⁹³ 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 managers; technicians and associate professionals; plant and machine operators and assemblers; 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 that 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 employed in craft and related trades feels 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

Table 4. The determinants of replaceability across Europe.

Columns	(1)	(2)	(3)
Reference: Clerks and service workers			
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 respondents (dummy 0, 1)	0.31059* (0.181)	0.31059* (0.181)	0.31059* (0.181)
Young respondents (16-25 years old)	0.47330 (0.354)	0.47330 (0.354)	0.47330 (0.354)
Old respondents (>50 years)	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)
National level variable			
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

Note: Logistic regression analysis with robust standard errors clustered by country in parentheses; the dependent variable is share of respondents that say it is very easy for firms to replace them; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

country-level variables: EPL for temporary workers (defined earlier), a measure of wage coordination, and the unemployment rate as a percentage of the labor force in each country for the year 2005. My measure of wage coordination, taken from Visser,⁹⁴ 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 is 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 level of protection for temporary workers is associated with a lower fear of replaceability of full-time workers. Thus, permanent and temporary workers may have overlapping interests to push for higher regulations of temporary work in contexts where permanent workers are replaceable.

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 workforce increases the fear of replaceability, while a higher level of protection for 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, permanent workers on average report lower fears of being replaced.

Determinants of EPL for Temporary Workers across Europe

I expect the tightening of EPL for temporary workers to be most likely where replaceability is high because it increases the degree of overlap between the interests of permanent and temporary workers. Interest overlap, in turn, affects the incentives of all political parties to regulate temporary work. However, this does not mean partisanship becomes irrelevant. Left political parties are much more responsive to the interests of their key electoral constituents, insiders. Where insiders in permanent employment share the interests of temporary workers to push for greater regulation of the sector, the left is therefore comparatively more likely to tighten temporary work regulations than conservatives.

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 (United Kingdom) or where temporary workers have very different skills than regular workers (e.g., Spain). France is the only country where all conditions were present that created a comparatively higher degree of overlap between the interests of permanent and temporary workers. In turn, this 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 twelve EU countries (see Table 3), which makes any systematic large N investigation particularly challenging. Second, the levels of the OECD index for EPL of temporary workers changes very little over time: for the EU15, there were only twenty 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 work; 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 that 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).⁹⁵ This database has the advantage to be much more refined in its inclusion of different reforms of temporary work - it identifies which type of temporary work is affected by the reform - and 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 fourteen 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 percent of cabinet shares and zero otherwise.⁹⁶

There are no accepted measures 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 codetermined by the degree of economic coordination of each type of capitalism,⁹⁷ 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 occupation⁹⁸ instead of wage coordination. More problematic is the lack of comparative data on the differences in education levels 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 analyze this dimension in more depth in the qualitative section of this paper that considers the case of France.

Throughout, I control for socioeconomic 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. Fixed effects are included to account for unobserved 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 make it more likely that governments will flexibilize temporary agency work. This result is consistent with the argument that more rigid labor markets that have higher unemployment push governments to flexibilize at the margin (column 1). However, unemployment and overall EPL have no significant effects 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 makes it less likely that new types of temporary contracts are created (column 3). Last but not least, the left has no statistically significant independent effect (columns 1 to 3), consistent with my argument that the left only has an incentive to regulate temporary work where permanent workers feel replaceable and hence have overlapping interests with temporary workers.

In columns 4 to 7, I investigate the determinants of my fourth dependent variable, total changes in EPL for temporary work. This dependent variable is a simple sum of changes in the three previous dependent variables: temporary agency work, fixed-term contracts, and introduction of new types of temporary contracts. A rigid overall EPL and coordination increases the likelihood of introducing a reform that deregulates temporary work. To investigate whether partisanship has an effect conditional on whether the government is in high or low coordination countries, I interact coordination and

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 total labor force)							0.01559 (0.010)
Constant cut 1	9.20668**	-0.62930	-47.90839***	-0.29818	-1.10969	-4.64452***	-2.24942
Constant cut 2	20.03174***	5.42097	15.40653	2.43972	1.65440	-1.93809	0.30383
Constant cut 3				8.23153**	7.53333**	3.65046***	5.00742***
Constant cut 4				9.69215***	9.00245**	5.05314***	6.74354***
Constant cut 5				11.56874***	10.88481***	6.72582***	n.a.
Observations	269	269	269	269	269	247	139
Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	No	No

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.

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.⁹⁹

In column 6, I replace my measure of coordination with 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 with 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 in education between temporary and regular workers do not matter.

Overall, these findings are therefore consistent with the argument that factors that increase replaceability make permanent workers share the interests of temporary workers for a higher level of EPL of temporary work. This allows temporary workers to benefit from the greater political strength of permanent workers and makes 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.

The Left and Temporary Work Regulations in France

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 percent to more than 12 percent since the end of the 1990s. Because high replaceability in France means the interests of permanent and temporary workers overlap, the aim of the left has consistently been to increase the cost of temporary work and to limit the number of valid cases where a company can hire temporary workers.

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 that 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 of 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 had particularly low and general skills 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 percent of the workforce was low- or

semi-skilled in 1982.¹⁰⁰ 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.¹⁰¹

Four additional indicators can further substantiate the claim that French workers have 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 because employees acquire specific skills mostly through on-the-job training.¹⁰² In 2001, 67 percent of French employees declared that they had received no employer training in the past five years, compared with 44.5 percent for Germany and 34.2 percent in Sweden. Moreover, this represented a five percentage-point increase from 1996, when 61.7 percent had declared receiving no training.¹⁰³

Second, the occupational structure in France has over time made replaceability more of a problem. The share of manual workers (*ouvrier*) has been falling from 30.2 percent to 22.9 percent 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 percent to 29.3 percent, mostly driven by the increase in the share of unskilled employees.¹⁰⁴ Unskilled employees include clerks and service workers, which are occupations requiring much less specific skills¹⁰⁵ than occupations such as craft workers, who—as I showed in the previous section—feel less replaceable.

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 one minute.¹⁰⁶ Between 20 percent and 22 percent of respondents in Denmark, Austria, and Italy said yes, compared with 30.2 percent in France. Fourth, the same survey allows us to look at the share of the workforce carrying out complex tasks, which is also a good indicator of how replaceable a worker is. The percentages of respondents carrying out complex tasks were 76.5 percent in Austria, 67.2 percent in Denmark, and 65 percent in Germany—compared to 50.8 percent 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 temporary workers for regular workers. The share of an age group that completed secondary education increased tremendously in France and reached 75 percent in 1995.¹⁰⁷ Using the fourth wave of the European Social Survey,¹⁰⁸ 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.¹⁰⁹ It is also the only country, along with Belgium, where the share of temporary workers with upper secondary education is higher than it is 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 United Kingdom 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 replace permanent workers with temporary ones. Although Germany and

Austria have well-protected permanent workers, high wage coordination and more specific skills hinder employers' ability to replace permanent workers with temporary workers. Finally, although Spain has evolved in a similar type of capitalism as France, and temporary work has also expanded quickly there, that country's share of temporary workers with only upper secondary education was much lower than in France.¹¹⁰

Composition and Political Preferences of Temporary and Permanent Workers

Fixed-term contracts in France are particularly concentrated in the service sector, whereas interim contracts are mostly found in industry. In 2002, 12 percent of workers in personal care, education, and health were on fixed-term contracts; about 5 percent in the food industry; but less than 3 percent in the car industry.¹¹¹ By contrast, 8.1 percent of the workers in the construction sector and 6.9 percent of those in the industrial sector were interim workers, compared to 1.7 percent for the tertiary sector.¹¹² Men are overrepresented in the interim sector but underrepresented among fixed-term contracts. In 2008, 69.3 percent of interim workers but only 38.5 percent of workers on fixed-term contracts were men.¹¹³ Interim workers also tend to have lower skills: 38.4 percent were unskilled manual workers, and 39.4 percent were skilled workers, compared to only 13.2 percent working as employees and 9 percent in management or intermediary professions.¹¹⁴

Workers that have just entered the labor market and those with a lower educational background are more likely to be in temporary contracts. In 2007, among those who finished their education less than four years ago, 31 percent were in temporary contracts, 54 percent were in private permanent contracts, and 11 percent were in public permanent contracts. For those who had not completed a secondary school degree, 45 percent were in temporary contracts, compared to 22 percent for those with university education. Even when considering respondents who finished their education more than eleven years ago, 10 percent of those with no secondary education were on temporary contracts, compared to only 4 percent of those with university education.¹¹⁵

Temporary work is also particularly concentrated among younger workers. In 2008, 26.4 percent of those within the 15-24 age groups were on fixed-term contracts and 6.6 percent were in interim work. By contrast, the respective numbers for the 25-49 age groups were 7.5 percent and 2.1 percent.¹¹⁶ However, transition from temporary to permanent employment is slow. In 2003 only 25 percent of those who were initially on a fixed-term contract were in a permanent contract one year later, and only 17.3 percent of those in interim contracts had managed to get a permanent contract one year later.¹¹⁷

Immigrants are also more likely to be employed under temporary contracts. In 2009, 11.4 percent of newly arrived migrants in France worked for interim agencies and 26.1 percent had a fixed-term contract.¹¹⁸ This prevalence of temporary work among immigrants extends well beyond the first year of arrival. In 1999, for the 18-40 age group, 7 percent of male immigrants who had arrived when they were older than 10 years old were interim workers and 11.5 percent were in fixed-term contracts. By contrast, for the

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	Not very easy	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.

same age group only 3.8 percent of male natives were in interim work and 10 percent in fixed-term contracts. For those born in France but from parents born in a foreign country, 5.2 percent of male respondents were in interim work and 11.6 percent in fixed-term contracts. Within the immigrant population, more than one-third of males that emigrated from sub-Saharan Africa were in precarious contracts, compared to 19 percent for natives.¹¹⁹ Controlling for age, education, and marital status, male immigrants were still three times more likely to be in a precarious contract than natives.¹²⁰

In the last 2007 election, more than 60 percent of 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.¹²¹ The tightening of temporary work regulations that the left has undertaken in the last three decades was therefore beneficial to these workers. Indeed, new regulations have introduced 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.¹²²

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 percent of technicians, 58 percent of machine operators, and 62 percent 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 incidence of temporary work: 28 percent of respondents in elementary occupations and nearly 17 percent of those in craft work reported being on limited duration contracts. As many as 41 percent of respondents in elementary occupations and 33 percent 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.

The Evolution of Temporary Work Regulation in France

Temporary agency or interim work was legalized by the right-wing government in a law passed in 1972¹²³ and implemented through a government decree in 1973.¹²⁴ 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 instrumental for fulfilling both economic and social functions.¹²⁵ At the time of the law, only 1 percent of the active labor force was in interim work¹²⁶ and user companies did not have to pay the same wages as they did to their actual workers.¹²⁷ Similarly, the first law concerning the *Contrat à Durée Déterminée*, the main type of FTC in France, was passed in March 1979.¹²⁸ 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.¹²⁹ 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.¹³⁰ The French employers’ association not surprisingly welcomed this law, which made it easier and cheaper to hire FTCs.¹³¹

The 1972 and 1979 laws passed by the right set in motion the process of replaceability,¹³² which would ultimately increase the degree of overlap between the preferences of permanent and temporary workers. This would thereafter motivate the labor movement and the left to tighten regulations of temporary work. Writing in 1981,

Robert Fossaert argued that this growing segment of precarious work could lead to a twofold pressure on wages.¹³³ These pressures operated directly through the lower wages that temporary workers received but also indirectly through competition and substitution effects with respect to regular employees. Members of the union movement were already opposed to lowering temporary work regulations at the time because they thought such a reduction would undermine collective agreements and regulations on collective dismissals.¹³⁴ Similarly, the detractors of the 1979 law on the left saw the law as promoting the *précarisation* of employment.¹³⁵

It was in this context that Mitterand, the first Socialist president of the fifth republic, was elected on May 21, 1981.¹³⁶ 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," declaring that "workers employed on a temporary basis will also be given improved rights."¹³⁷ 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 had been used by employers in the form of agency work or FTCs.¹³⁸ 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.¹³⁹

Three ordinances were issued by the government in 1982 to address the shared concerns of permanent and temporary workers concerning the protection of temporary work. 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."¹⁴⁰ As a result, temporary work was circumscribed by a number of conditions and formalities. The new law tightened the set of reasons under which companies could hire FTCs or agency workers. Specifically, temporary employment could now only 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 preauthorized sectors.¹⁴¹ Maximum duration, authorization procedures, and sanctions for noncompliance with regulation were also tightened.¹⁴² Specifically, the new maximum duration of the mission could not exceed six months, whereas there were no time limits before.¹⁴³ The legislator also introduced higher civil sanctions on employers if they terminated contracts before the end of the agreed duration.¹⁴⁴

New rights were also granted to temporary agency workers. The legislation granted for the first time equal rights in terms of wages¹⁴⁵ 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 percent of their total gross earnings at the end of their missions. FTC workers were also for the first time made eligible to a similar "end-of-contract indemnity" equal to 5 percent of their total gross earnings.¹⁴⁶

In March 1986, the right won the legislative elections with a clear intention to relax restrictions on temporary work.¹⁴⁷ The 11th of August ordinance removed

restrictions on FTCs and agency work to “give more freedom to companies in human resources management.”¹⁴⁸ The available conditions to employ a FTC were expanded by abandoning the list of cases in which hiring temporary workers was authorized.¹⁴⁹ Further, the administrative authorization for companies to hire temporary workers was suppressed and the maximum duration of contracts was extended to 24 months.¹⁵⁰

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 December 6, 1990 to place “limitations on the use that employers may make of these forms of employment” and mainly involved reintroducing 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 twelve 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.”¹⁵¹

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.¹⁵² On July 12, 1990, legislators passed a law that incorporated most of the agreement that the social partners had reached. Its objective as stated in its first article was to “claw back the share of precarious jobs by facilitating their transformation into stable employment.”¹⁵³ 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 agency work were also reinforced. Overall, the 1990 law therefore represented a return to a more strict limitation of cases where a company could use precarious contracts.¹⁵⁴ The maximum duration was fixed at eighteen months compared to twenty-four months in the 1986 law.¹⁵⁵ The principle of equal pay between temporary and permanent workers was also reinforced by extending provisions that existed for interim workers to fixed-term contracts.¹⁵⁶

From 1993 to 1997, the right controlled the government with no major changes in the legislation of temporary work. In June 1997, the left won the legislative elections bringing Lionel Jospin to the post of prime minister. The Parliament approved a social modernization bill in 2001. Articles 122-124 of that law entailed a number of initiatives concerning the fight against precarious work, aimed at restricting temporary contracts. The exceptional character of temporary work was reaffirmed.¹⁵⁷ As before, the aim of the law was to prevent companies from replacing permanent workers with temporary workers in cases where the tasks to be carried out were 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 percent of their total gross income of the worker. Last but not least, sanctions and controls were further reinforced.¹⁵⁸

In sum, the left has consistently tightened the regulations of temporary work, whereas the right has supported the deregulation of the sector. Thus, temporary

workers in France have benefited from their shared interests with politically more powerful permanent workers. The main employer organization in France¹⁵⁹ 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,¹⁶⁰ have been systematically opposed to temporary work and have called for more regulations to prevent replaceability.¹⁶¹ 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.¹⁶²

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. 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. The protection of temporary workers represents a particular challenge for governments because these workers have little political power to promote their interests, while temporary work has wide-ranging implications for inequality. Indeed, temporary workers are on average less well off than permanent workers in terms of pay, access to training, job satisfaction, and job security.

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 socioeconomic 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 by employers' ability to replace regular workers with temporary ones. 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. Where replaceability is high, permanent and temporary workers have increasingly overlapping preferences for higher protection of the temporary work sector. 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 they are 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 (Germany), where the temporary work sector is small (United Kingdom) or where temporary workers have very different skills from regular workers (Spain).

By contrast, where a sufficiently large number of permanent workers feel replaceable, as in France, they share temporary workers' preferences for increased protection of temporary work. As a result, the politics of temporary work regulations are 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 with temporary workers. Both temporary workers and permanent workers who 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 the right deregulated temporary work in 1986.

My findings have implications for the dynamics of EPL of temporary work across Europe. Specifically, they suggest that the trend toward deregulation of temporary work across the EU may become unstable and be reversed. If replaceability starts affecting insiders in permanent employment, temporary workers may become able to benefit from the greater political strength of 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), which attempted to promote permanent contracts and restrict the expansion of temporary work.¹⁶³

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, because 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 have 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, the determinants of the extent to which the interests of insiders and outsiders overlap, and the ensuing politics of reforms that affect outsiders in other policy domains.

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Notes

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115. *Ibid.*, 51. Note that the fact that the incidence of temporary work is higher among those that have not completed secondary school is not incompatible with the observation that temporary and permanent workers have similar attainments in terms of upper secondary education. This is because the probability of those with low education having a temporary contract is analytically distinct from the probability that a temporary or permanent worker has completed upper secondary school. This can be illustrated with a simple numerical example. Suppose there are 100 people where eighty-five have permanent contracts and fifteen have temporary contracts. Suppose further there are three levels of education such that ten have a low level of education, eighty have a medium level of education, and ten have a high level of education. If three of those with low education are in temporary contracts, the probability of having a temporary contract with low education is 30 percent. If twelve of the eighty with medium education are in temporary contracts, the probability of having a temporary contract with medium education is only 15 percent. Assume those with high education only hold permanent contracts. Thus, workers with a low level of education are more likely to have a temporary contract

(30 percent) than those with a medium level of education (15 percent). Using the same numbers, one can in turn calculate the share of temporary and permanent workers with medium levels of education in this example. Among the eighty-five with permanent contracts, 68 have a medium level of education—that is a probability of 80 percent. Among the fifteen with temporary contracts, twelve have a medium level of education, so that the share of temporary workers with medium levels of education is identical at 80 percent.

116. Ibid.
117. Ibid, 57.
118. ELIPA, “Enquête longitudinale sur l’intégration des primo-arrivants. First wave, identification number,” edited by Ministère de l’Intérieur, Centre Maurice Halbwachs (2010).
119. Meurs Dominique et al., “Persistance des inégalités entre générations liées à l’immigration: l’accès à l’emploi des immigrés et de leurs descendants en France,” *Population* 61, no. 5 (2006), 780.
120. Ibid., 781.
121. Detailed analysis of temporary workers’ voting records for different political parties in the 2007 elections available from the author.
122. Antoine Math, *Decision Clarifies Rules on Use of Temporary Agency Workers in Automobile Industry* (Dublin: European Industrial Relations Observatory, 2004).
123. 3rd of January 1972 Law.
124. Decree N73-53.
125. Bruno Alibert, “Commentaire,” *Droit Social* 1, no. 1 (1974), 10.
126. Ibid., 13.
127. Robert Fossaert, “Commentaire,” *Droit Social* 7/8, no. July/August (1981), 496.
128. Loi du 3 Janvier 1979 relatif au Contrat a Durée Déterminée.
129. See: Guy Poulain, “Loi Du 3 Janvier 1979 Relatif Au CDD,” *Droit Social* 3, no. March (1979): 67-79; Gerard Couturier, “Les Nouveaux Contrats De Travail a Durée Déterminée,” *Droit Social* 9/10, no. Septembre-Octobre (1980): 38-46; Gérard Lyon-Caen, “Plasticité Du Capital Et Nouvelles Formes d’emploi,” *Droit Social* 9/10, no. September-Octobre (1980): 8-18.
130. Couturier, “Les Nouveaux Contrats De Travail a Durée Déterminée,” 38.
131. Raymond Darcel, “Une Loi D’opportunité Bien Accueillie Par Le Patronat,” *Droit Social* 9/10, no. Septembre-Octobre (1980): 19-20.
132. At the end of the 1979, 35 percent of newly registered unemployed workers come from ending FTCs (Darcel, “Une Loi D’opportunité Bien Accueillie Par Le Patronat,” 19).
133. Fossaert, “Commentaire,” 509.
134. Lyon-Caen, “Plasticité Du Capital et Nouvelles Formes D’emploi,” 9.
135. Couturier, “Les Nouveaux Contrats De Travail a Durée Déterminée.”
136. EIRR, “Newsbrief Section on France,” *European Industrial Relations Review* 91, no. August (1981), 3.
137. Ibid., 3.
138. EIRR, “Newsbrief Section on France’s Fixed Term and Temporary Work Contracts,” *European Industrial Relations Review* 95, no. December (1981): 4.
139. EIRR, “Features France: Temporary Work Law Revised,” *European Industrial Relations Review* 98, no. March (1982): 6.
140. “Circulaire Du 24 Fevrier 1982,” quoted in Jean Pradel, “Travail Temporaire Et Droit Penal,” *Droit Social* 7/8, no. July/August (1984), 521.

141. EIRR, "Features France: Temporary Work Law Revised"; Antoine Lyon-Caen, "Commentaire," *Droit Social* 1, January (1983): 10.
142. Ibid.
143. EIRR, "Features France – France – Fixed Term Contract Law Reform," *European Industrial Relations Review* 98, March (1982).
144. Jean Pelissier, "Commentaire," *Droit Social* 1, Janvier (1983).
145. That is, the interim worker will get the same wage as someone in a similar post/occupation in the employing company.
146. EIRR, "Newsbrief Section, France: Contract Laws Clarified," *European Industrial Relations Review* 99, April (1982): 8-11; Pelissier, "Commentaire," 20.
147. Gilles Belier, "Le Contrat De Travail a Durée Indéterminée Intermittent," *Droit Social* 696, September/October (1987): 696-701.
148. Philippe Seguin, "L'adaptation Du Droit Du Travail," *Droit Social* 12, December (1986): 829.
149. Jean Savatier, "La Requalification Des Contrats a Durée Déterminée Irrégulier," *Droit Social* 5, May (1987), 407.
150. Jean Pelissier, "Le Travail Intermittent," *Droit Social* 2, February (1987): 106-115; Seguin, "L'adaptation Du Droit Du Travail."
151. EIRR, "Newsbrief France: Bill on Temporary Work and Fixed Term Contract," *European Industrial Relations Review* 192, January (1990): 4-5.
152. EIRR, "News Section on France, Temporary Work and Fixed Term Contracts: The Negotiation before Legislation," *European Industrial Relations Review* 193, February (1990), 4.
153. 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, January (1991), 11).
154. Blaise, "Les Contrats Précaires Après La Loi Du 12 Juillet 1990."
155. EIRR, "Features on France: National Agreements on Fixed Term Contracts and Temporary Work," *European Industrial Relations Review* 197, June (1990), 13-14.
156. With the new 1990 law, the rate is now 6 percent for fixed term contracts and 10 percent for interim workers (Blaise, "Les Contrats Précaires Après La Loi Du 12 Juillet 1990").
157. "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 L122-1 – see: Claude Roy-Loustaunau, "La Lutte Contre La Précarité Des Emplois : Une Reformes Discrète Mais Non Sans Importance," *Droit Social* 3, March (2002), 115.
158. Roy-Loustaunau, "La Lutte Contre La Précarité Des Emplois: Une Reformes Discrète Mais Non Sans Importance," 311.
159. *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.
160. CGT stands for "Confédération Générale du Travail" and CFDT for "Confédération Française Démocratique du Travail."
161. Interviews with CFDT and CGT federal and confederal representatives carried out in July and September 2011.

162. Interviews with CFDT Services Federation and CGT interim and temporary work federations carried out in July and September 2011.
163. Esteban Villarejo, "Spain: Temporary Agency Work and Collective Bargaining in the EU," *European Industrial Relations Observatory, online resource* (2008). Can be accessed at <http://www.eurofound.europa.eu/eiro/studies/tn0807019s/es0807019q.htm>

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