

Why Hiring Temporary Workers?

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Aimed at reducing unemployment rates, in the last decades, many European countries have undertaken a series of reforms in the labor market in order to increase flexibility "at the margin". Recently, however increasing attention has been paid to the implications of hiring temporary workers for firms' productivity. The results of the literature all confirm a negative relationship between temporary work arrangements and labor productivity. These results impose, however, a simple questions. Why firms hire temporary workers? The contribution of this paper is to empirically demonstrate that temporary workers are a sort of real option for firms. Since hiring permanent workers implies irreversible costs due to employment protection legislation, when demand uncertainty increases firm find convenient to postpone the decision to hire workers permanently. Our empirical analysis is based on a panel of Italian firms for which we have a measure of perceived demand uncertainty, and a measure of productivity. According to our estimates, because of the increase in uncertainty between the end of 2008 and the beginning of 2009, the share of temporary workers in total firm employees raised by 3 percentage points. This increase implied a reduction of labour productivity by 1 per cent. At least .25 per cent out of the 4 per cent decline recorded in the sample average productivity in 2008 can be attributed to the rise in the weight of temporary workers in total workforce.