REDUCING LABOUR MARKET SEGMENTATION

NON-REGULAR EMPLOYMENT AND THE LABOUR MARKET DIVIDE

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Non-regular employment as a broader concept

- Size of non-regular employment

  - Temporary employment widely used in a number of OECD countries, even if permanent contracts remain the prevalent form of employment for wage & salary employees

  - Dependent self-employed workers (DSEWs) ~ 1.6 % of dependent workers in OECD countries covered by the survey
Temporary employment has been growing in EU countries
Non-regular employment played an important role in the recovery from the global crisis

Fixed-term contracts among new hires, 2006-07 and 2011-12

Percentage of employees with no more than three months of tenure

Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS).
Non-regular jobs still disproportionately held by younger workers.

Temporary employment by age group, 2011-12
All fixed-term contracts (share of employees with a FT contract)

Source: OECD calculations based on microdata from the European Union Labour Force Survey (EU-LFS).
Non-regular workers tend to cumulate unfavourable conditions

- They are generally less protected by employment termination rules than regular workers.

- The comparison across contract types of different measures of job security suggests that non-regular workers (FT and TWA) feel much more insecure than permanent employees as regard to the risk of job loss and the probability of re-employment after job loss (OECD, EmO, 2014).

- They face a wage penalty, about 6-10% for temporary workers once unobservables are taken into account (OECD, 2014a).

- Lower access (exclusion) to social security schemes and pensions or other working conditions (De Jure/de Facto).

- They receive less training (on average probability of receiving employer-sponsored training – 14%).
Lower investment in human capital

Estimated percentage effect of temporary contract status on the probability of receiving employer-sponsored training, 2012
Stepping-stones, traps or both?

- Evidence that temporary contracts can be a stepping stone into stable jobs for many workers, especially for youth.

- But they are a trap for others:
  - 3-year transition rates to full-time permanent job lower than 50%.
  - Repeated spells of temp employment have a particularly negative effect

Percentage share of temporary employees in 2008 that were employed as full-time permanent employees in 2011
Why it is crucial to address segmentation in the labour market

- For equity issue, but not only
- Efficiency as well
  - Depress productivity growth (Dolado et al., 2012; Bassanini et al., 2009)
  - Excessive adjustment at the margin (volatility)- OECD, 2014c (Spain)
- Reduce the labour market divide and alleviate contractual labour market segmentation
- Avoid “excessive” use of non-regular employment
Argument:

- Reform of EP via asymmetric liberalisation of temporary contracts (e.g. while maintaining regular EP for permanent workers) leads firms to substitute temporary for permanent workers--increase in the % of workers on fixed-term contracts (Boeri and Garibaldi, 2007; Bentolila et al., 2008)

- In addition, a large asymmetry between the EP provisions applying to the two types of contracts will reduce the conversion rate of fixed-term contract into permanent ones (Boeri, 2011)
Make hiring on temporary contract more difficult and costly?

Reduce the wedge between termination costs of regular and non-regular contracts

- Single Employment Contract or Unified contract proposals have been put forward (mostly in Europe)?
  - Risk of introducing excessive rigidity in hiring decision, could even lead to employment losses & displacement on DSEWs (Single Contracts)
  - Unfair dismissals definition at stake
ELEMENTS FOR POLICY DISCUSSION

- Enhance convergence between contracts (more homogeneous employment protection, notably in terms of termination costs)
- Few examples of countries with same termination costs
- As well as in more protective countries
- However, convergence will not eliminate all forms of duality (e.g. differences across social security contributions create incentives to employ those under more favourable regime, dependent self employed workers, etc)
- Need to have a comprehensive “flexicure” approach
Non-regular forms of employment are sizeable in many OECD countries...

... and are associated with polarisation of labour demand

...but also related to regulatory and institutional factors

Non-regular work is not a stepping stone for many, and lead to under-investment in human capital...

...it also enhances risk of increasing disparities in job quality

A number of recent reforms in EU have attempted to reduce the labour market divide through EP changes (address the asymmetry between EP for regular and non regular contracts)

Policy trade-offs: many regulatory reform and institutional changes have been put in place to increase employment opportunities, at the same time they were associated with wider inequalities
Thank you for your attention!
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