



## ARTÍCULO

# Temporary Contracts across Generations: Long-term effects of a labour market reform at the margin

Miguel Á. Malo<sup>a,\*</sup>, Begoña Cueto<sup>b</sup>

<sup>a</sup>Departamento de Economía e Historia Económica, Universidad de Salamanca, Salamanca, Spain

<sup>b</sup>Departamento de Economía Aplicada, Universidad de Oviedo, Oviedo, Spain

Received December 2012; accepted February 2013

### JEL CLASSIFICATION

J11;  
J41

### KEYWORDS

Temporary  
employment rate;  
Cohorts;  
Regression  
discontinuity

### CODIGOS JEL

J11;  
J41

### PALABRAS CLAVE

Tasa de temporalidad  
laboral;  
Cohortes;  
Discontinuidad  
de regresión

**Abstract** We analyse the impact of a labour market reform *at the margin* (an easier use of temporary contracts launched in Spain in 1984) across generations. As this type of reforms applies to new entrants into the labour market (or, in general, new hired workers), we use a regression discontinuity design to estimate a long-lasting effect on the mean temporary employment rates for generations entering into the labour market compared to those already in the labour market. The results show a relatively small impact related to the reform at the margin. By educational levels, the estimated effect of the reform at the margin on the mean temporary employment rate is close to zero for those with university level education for both genders.

© 2012 Asociación Cuadernos de Economía. Published by Elsevier España, S.L. All rights reserved.

## Contratos temporales de generación en generación: los efectos a largo plazo de una reforma del mercado laboral en el margen

**Resumen** Analizamos el efecto de una reforma del mercado laboral *en el margen* (un uso más sencillo de los contratos temporales iniciado en España en 1984) de generación en generación. Como este tipo de reformas atañe a los que se incorporan por primera vez al mercado laboral (o, en general, a los nuevos trabajadores), utilizamos un diseño de discontinuidad de regresión para calcular el efecto a largo plazo en las tasas medias de temporalidad laboral para las generaciones que se incorporaron al mercado laboral tras la reforma respecto a los que ya se encontraban en él. Los resultados muestran un efecto relativamente pequeño en relación con la reforma en el margen. Por niveles de formación, el efecto estimado de la reforma en el margen sobre la tasa media de temporalidad laboral es cercana a cero para las personas de ambos sexos con nivel universitario.

© 2012 Asociación Cuadernos de Economía. Publicado por Elsevier España, S.L. Todos los derechos reservados.

\*Corresponding author.

E-mail address: malo@usal.es (M.Á. Malo).

## 1. Introduction

In the 1980s, all Western countries implemented different labour market reforms in order to increase labour market flexibility and, thereby, employment (Barbieri & Sestito, 2008; Blanchard & Landier, 2002; Booth et al., 2002; Dolado et al., 2002; Holmlund & Storrie, 2002). Everywhere, these reforms were implemented as gradual and/or partial changes of the institutional framework of the labour market. One type of this partial or gradual reform was the *flexibility at the margin*, i.e., affecting only new entrants into the labour market and those moving to new jobs.

Temporary and fixed-term contracts are probably the most important type of flexibility at the margin. Originally, they decrease hiring costs, but at the same time they are also characterised by much lower dismissal costs. Temporary contracts usually have low or even null severance payments, and very low administrative costs linked to the end of the contract, in contrast to an open-ended contract. Many European countries have promoted, under different regimes, the use of temporary and fixed-term contracts, but Spain is the most prominent example. While, at the beginning in the 1980s, the proportion of wage and salary workers with a temporary contract (the temporary employment rate, TER) was around 10 per cent, and concentrated on construction and tourism industry (Fina et al., 1989), in the mid 1990s it rose to 33 per cent and affected all economic activities (Toharia & Malo, 2000; Dolado et al., 2002), remaining around 30 per cent even after the implementation of different labour market reforms aimed at decreasing this rate in 1994, 1997 and 2006. In addition, the widespread use of temporary contracts were not mainly linked to temporary work agencies, as they were forbidden until 1994. In fact, the TER was above 30 per cent when these agencies began their activity, and nowadays they manage around 16 per cent of the total gross flow of temporary contracts (Amuedo-Dorantes et al., 2008). On the above grounds, Spain is probably the most appropriate country to study any topic related to temporary contracts.

Previous research on temporary work has focused on the effects of fixed-term contracts on training provision, work injuries, or on specific groups such as young people, women or low-skilled workers. Although some authors have analysed the relevance of different workers' characteristics (such as age) of temporary workers (for example, Kahn, 2007), to our knowledge there is no previous research on the relevance of temporary contracts on long-term working trajectories using a generation approach. We will apply this approach to analyse the impact of the labour market reform fostering temporary contracts on working lives from a long-term perspective, using generations (defined as birth cohorts) as the main unit of analysis, and the aggregate temporary employment rate of different generations at different ages as the dependent variable. In these terms, this article adds to the current interest in the long-term effects of flexibility in two-tier labour markets, originated by labour market reforms at the margin in different countries (Boeri, 2009). Therefore, we will determine whether there is a long-term impact on the temporary employment rate of different generations according to their different exposure to the labour market reform at the margin easing the use of temporary contracts by companies.

Probably, the most demanding challenge is how to evaluate the impact of a labour market reform at the margin. After the implementation of such reform all individuals are exposed to be hired using a temporary contract. At first sight, there is not any 'non-treated' group as the exposure is complete for young generations entering into the labour market after the legal change, and the exposure is partial (not zero) for older generations already in the labour market when the reform was implemented. Therefore, the labour market reform at the margin potentially affected the working lives of all individuals. Note, that our research will not compare working lives of individuals affected by the reform with a counterfactual of the working lives of individuals not affected by such reform. Such comparison is impossible, because we only observe the 'real world' with the implementation of this change in labour market regulation. What we can compare is the working lives of those entering into the labour market, after the implementation of this legal change, with the working lives of those already in the labour market before the reform. In this vein, we will focus on estimating the long-term impact (if any) of the labour market reform at the margin of 1984 on the mean TER of younger cohorts, along their observed working lives. Therefore, we are looking for a sort of 'temporary contracts trap' (or 'long-term precariousness') for younger generations consisting of a relatively higher TER throughout their lives. This is relevant because a higher TER can negatively affect critical life events, such as relevant delays in leaving the family home, declining fertility rates, lower probability of being eligible for a mortgage, poorer career prospects, higher risk of unemployment, etc. According to this rationale, we present a regression discontinuity design to isolate whether there is a long-run effect of the labour market reform at the margin implemented in 1984 on younger cohorts (i.e., on those cohorts entering into the labour market after such implementation), compared to older cohorts already in the labour market when the legal change was implemented. Our results will be disaggregated by educational level and gender.

We use micro-data from the Spanish Labour Force Survey (LFS) from 1987 to 2010. To focus on generations, we will use the micro-data from the Spanish LFS to provide a novel picture of information by generation groups (i.e. birth cohort groups) throughout their life cycles. For this purpose, we use artificial (synthetic) cohorts' methodology, widely used in Demography and Epidemiology. We use this data aggregation in descriptive and econometric analyses.

We will show that, at a descriptive level, it is obvious that younger cohorts have a higher temporary employment rate at the beginning of their working careers, but according to their characteristics (educational level and gender) some of them have relatively faster declines in such rates. On the other hand, some workers experience a higher job mobility irrespective of their generation (such as workers with a low educational level). Older cohorts have a higher percentage of workers with low education levels, and when these workers lose their jobs they are also more relatively 'exposed' to a positive long-term effect on their mean temporary employment rate throughout their working career (as they have a higher probability of being re-hired under the new legal regulation). In fact, the TER of older generations with a low education level increased very rapidly just after the implementation of the legal reform. The regression

Download English Version:

<https://daneshyari.com/en/article/7343045>

Download Persian Version:

<https://daneshyari.com/article/7343045>

[Daneshyari.com](https://daneshyari.com)