

Name, E-Mail: Julia Bredtmann; Julia.Bredtmann@rwi-essen.de
Sandra Schaffner

Institution: University Bochum and RWI Essen, Germany

Titel: Temporary employment in Europe – stepping stone?

Very preliminary results – please do not quote

Abstract: In most European countries, temporary work, as well as other “non-standard” work arrangements, has gained importance during the last decades (Buddelmeyer *et al.* 2005). From the employers’ perspective, fixed-term contracts act as an alternative to permanent contracts, which involve strong employment protection and therefore high firing costs. By implying lower layoff costs, temporary contracts enable employers to adjust their workforce in a more flexible way. Moreover, temporary employment can be used as a screening instrument, since temporary job experience may reveal information regarding the ability and motivation of the individual (Bookmann and Hagen 2008). There is also an extensive debate on whether temporary work is beneficial for employees. Although fixed-term contracts reduce employees’ job protection, they may also facilitate labour market entry of currently unemployed and thus provide them the opportunity to gain work experience and acquire human capital.

Accordingly, raising unemployment rates led to an increase in temporary employment in almost all European countries (e.g. Holmlund and Storrie 2002; Ingham and Ingham 2010). With the increase in temporary employment, several research questions are raised in the literature: Who are the workers that have entered temporary employment? Is temporary employment voluntary and do workers benefit from these jobs? Do temporary jobs increase employment, or do they maybe even increase unemployment? While Blanchard and Landier (2002) argue that temporary employment increased unemployment in France, Ingham and Ingham (2010) suggest that the increase in temporary employment in Poland led to a decrease in unemployment. Finally, recent papers investigate the extent to which temporary employment can act as a stepping stone towards regular work for those who are unemployed. The evidence, however, is mixed: While Booth *et al.* (2002) find that fixed-term contracts are effective stepping-stones to permanent jobs in the UK, the results of Kvasnicka (2008) do not support the stepping-stone function of temporary employment for the unemployed in Germany.

In this study, we first investigate the characteristics of workers in temporary employment and whether there are differences between the EU countries. Thereby, socio-demographic, household as well as job characteristics are taken into account. Second, we investigate whether temporary work is beneficial for employees by looking at the reasons for temporary employment. Finally, we investigate the stepping stone function of temporary employment into permanent employment.

The analysis is based on two different data sets: the European Labour Force Survey (EULFS) for the years 1998 to 2008 and the European Union Statistics on Income and Living Conditions (EU-SILC) for the years 2004 to 2008. We analyse temporary employment in all Member States of the European Union and Norway.¹ The two data sources differ in several dimensions. The EU-LFS data provide the possibility to investigate developments over time since eleven years can be observed and covers information on the reason for temporary employment. By contrast, the EU-SILC data set is a longitudinal data set that allows following the same person up to 4 years. Furthermore, income measures are only available in these data.

The descriptive analysis first provides an overview of the amount of temporary employment in different Member States as well as for several demographic groups. Second, Markov matrices are presented that give some insights into transitions between temporary and permanent employment. Our results suggest that there are large differences between the countries both in the amount of temporary work and in the transition rates between temporary and permanent employment. Besides differences between the countries, being young is the most decisive characteristic of temporarily employed workers, while only slight gender differences in the amount of temporary employment exist. Moreover, large differences between industries are found.

Furthermore, we investigate the reasons for being temporary employed to differentiate between voluntary and involuntary temporary employment. It can be observed that most temporarily employed workers state that they are in temporary employment because they did not find a permanent job. This finding suggests that temporary employment is judged as negative by employees. This can be an indication that there are no compensations, e.g. higher wages, for the reduced job security which goes together with a temporary contract.

The stepping stone hypothesis is investigated in two ways: Based on the EU-SILC data, the short-term stepping stone function is analysed by comparing the future labour market outcomes of temporary employed workers to those of comparable unemployed workers. Second, we investigate the stepping stone function of fixed-term contracts in the long-run using the EU-LFS data. Since there is no longitudinal information in these data, a cohort analysis is applied. Our first results lend some empirical support to the stepping stone function of temporary employment into permanent employment.