

## **Better unemployed or FTC?** Mid-term occupational consequences of unemployment and temporary contract. (in Italian)

*“Meglio un lavoro a termine che nessun lavoro? Conseguenze occupazionali, ad un anno, di disoccupazione e contratto a tempo determinato.”*

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### **Long abstract**

This paper investigates the integrative power of taking up a temporary job for unemployed youth compared to the situation of remaining unemployed and searching for a better job in Italian labor market.

In this paper, we frame temporary employment option as part of a trade-off between present disadvantages (if compared with stable workforce) and mid-term advantages (if compared with unemployed job seekers). Testing the assumption that drove flexibilization strategies and that saw temporary jobs as stepping stones to stable LM positions has therefore a twofold importance: from a macro point of view, it allows us to check for the effectiveness of promoting the adoption of deregulation measures, while, at a micro level, it provides us with an evaluation of individual mid-term utility of accepting atypical contractual arrangements. In the case of temporary employment would lead to a relevant positive shift in the individual probability to acquire “insider” position in the LM, an atypical work spell could be safely considered as a rational strategy of deferment of utility; otherwise temporary jobs could be seen even as a mere alternative to subsidized job search.

For job-seekers, accepting a FTC would represent a rational option for several reasons: to reduce “scarring effect” dynamics” enhanced by long unemployment spells, to overcome the asymmetric information problem and to signal effort and potential productivity, to have access to relevant social networks, to properly define her own occupational and career expectations and be informed with respect to the skills required in the LM and to the most profitable human capital investment to undertake. On the other side, employers would be highly interested in hiring permanently new employees only after checking their skills. Theories of LM market segmentation provide a more skeptical view both about the consequences of weakening EPLs and the individual outcome of temporary contract acceptance. Therefore, they argue, LM are characterized by the presence of two distinct segments; a primary one, that guarantees to the workforce defined career prospects, stable job positions and adequate wage levels; a secondary one, in which the workforce tends to earn less, to face occupational instability and to be burdened with higher risks of entrapment in a carousel of reiterated contingent work episodes and unemployment spells. The reasons why temporary job spells could foster higher occupational risks and lower chances to get stable labour positions in segmentation theory are somehow specular to “integrative” perspective. If the latter consider the acceptance of temporary jobs as a positive signal of potential productivity and individual effort, the former tends to underline the risks of negative signal of self-assessed low ability, motivation, potential productivity.

Several attempts to assess empirically the convenience of temporary employment at the individual level have been proposed in the last years. Even if the pattern of results is quite complex, empirical evidence shows that temporary contracts lead to heterogeneous occupational outcomes, depending on socio-demographic profiles of the workers, or given the different institutional contexts. Most of these studies, anyway, restrict the comparison to employed population (between permanent and temporary workers) skipping unemployed individuals and those out of LM. This approach on the one hand allows to interpret FTC penalties in terms of LM segmentation and shed light on FTC penalties in acquiring a full social citizenship and a factual inclusion welfare schemes against social and occupational risks, but on the other hand it reveals to be less useful in order to test the FTC stepping stone hypothesis. Allowing for a comparison within unemployed and looking at the comparison between prolonged-of-the job search and atypical employment is on the contrary the best way



to test for an improvement of career prospect due to a (even not desired) FTC acceptance. At what extent such the “FTC option” minimizes unemployment risks and maximize a stable inclusion in the LM is therefore the main research question that we tackle in this article.

At this regards, our research hypothesis can be formulated as follows:

Aiming to lower mid-term inactivity risks at the individual level, a clear (decreasing) ranking emerges between permanent arrangements, FTC positions and out of jobs search spells: at least in the short run, temporary employment, if compared to unemployment experiences, do represent a way in order to maximize the employment chances and to access permanent job position, but relevant variation is expected due to institutional settings of distinct sub-national labour markets.

In our work we contribute to the aforementioned strand of literature, providing a longitudinal comparative evaluation, testing the segmentation or integration scenarios and showing at which extent in distinct labour markets temporary contracts play a significant role in reducing individual subsequent unemployment risks and smoothing transition to permanent contracts.

The analysis is carried out using longitudinal information of RTFL data for the period from 1993 to 2001, covering a period of intense LM and EPL reforms. By looking at short career prospects, statistical matching procedures are applied to assess, at the micro level, the convenience of exiting unemployment by means of fixed term contracts rather than opting for longer off-the job search strategies.

The results suggest that temporary contracts play a significant role in reducing individual subsequent unemployment risks, while their “integrative effect” is hardly confirmed if we look at temporary contracts as stepping stones towards stable jobs positions. In this respect, initial advantages for FTC takers over job-seekers are indeed limited and the results appear potentially biased by unobserved heterogeneity issues. Loosely speaking, opting for exiting unemployment by means of temporary employment has a positive effect on subsequent mid-term chances of remained employed (+30%, partly due to lock in effects), while, FTC takers if compared to jobseekers an advantage of 10% in terms of upward contractual career.

However, transition chances to permanent employment have proven to not increase over time (and indeed they remain pretty stable in the whole observational window), and especially youth unemployment seems largely unaffected by increasing LM flexibility. Looking at the pattern of results, it seems plausible that the use of temporary employment has merely represented an alternative way to shrink cost of labour, giving raise to the risk of substitution effects, on a macro level, between regular and atypical employment.

