

Fixed-term contracts, economic conjuncture and training opportunities

A comparative analysis across European labour markets

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Long abstract

This work aims to bring together two research fields: the debate concerning different labor market flexibilization strategies and the determinants of training chances.

The purpose of our work is therefore to assess the trade-off between temporary employment and training opportunities in a comparative analysis of three groups of countries characterized by different levels of labour market segmentation and training coverage. Particular attention is paid to the impact of the 2008 economic downturn in shaping training opportunities for contingent workers.

In this study, we do not distinguish neither the type of training carried out (specific versus general), which depends on the (in)transferability of the acquired skills for a subsequent job, nor between firm-sponsored and self-funded training. Anyway, the distinction between alternative forms of training is rarely well operationalizable and our data does not exempt; moreover, the empirical evidence indicates that specific training is far less common than the general one and that, in most cases, training activities of both types are paid by employers. If not provided by the firm, the human capital investment paid directly by employees does not compensate the lacking of financed training opportunities. We assume that the decision to invest in training is inscribable in a utility maximizing framework both for the employers and the employees, in terms of expected returns (productivity on one side, wage and career prospects on the other). In such a cost-benefit framework, if the payback period is short, firms will have poor incentives to invest in the workforce training. Consequently, there is empirical evidence of underinvestment in training activities for part-time and even more for temporary workers, with likely negative implications in terms of productivity and career prospects for that part of the workforce less attached to the labour market. If the short payback period is the mechanism responsible for the FTC training penalty, it can be argued, from a theoretical perspective, that this mechanism should be exacerbated in those circumstances that lower the stability of the employment relation (in terms of unemployment risks) for temporary workers, i.e., (i) in highly segmented labour markets, where repeated experiences of unemployment–temporary work are common, or (ii) during negative economic conjunctures.

Starting from the former, there is in fact enough empirical evidence of a negative relation between FTCs and training in different labour markets, but mainly based on single-nation studies. The aim of this article is not only to address the question of the relation between temporary employment and training chances per se, but to detect, if any, the distribution of training retrenchment among different kind of workers in response to a negative economic conjuncture. Generally speaking, the question whether training is pro- or counter-cyclical is still highly debated, even if results seem to confirm a positive relation between economic downturns and training.

Based on these considerations, our first hypothesis can be presented as follows:

H1: The FTC training penalty should be lower in countries with a flexicurity setting comparing with Central and especially Southern European countries.

In highly segmented labour markets, the short payback mechanism affecting FTCs training chances could be reinforced as a consequence of higher job instability often leading to repeated temporary employment and unemployment spells.

Our second hypothesis can be presented as follows:



H2: The insider-outsider setting of Central and especially Southern European countries should make temporary workers most likely candidates for a reduction in training opportunities during economic downturns.

We argue that the more FTCs are used as a ‘buffer’ in order to cope with short-term demand-side needs (and the less as a screening process for future permanent workers), the more holding a FTC during economic downturns could have a negative impact on training chances. In other words, our hypothesis states that when firms’ resources devoted to training programmes tend to decline, employers’ provisions will mainly focus on the core-workforce. These dynamics have already been confirmed about the use of temporary workers as a shield protecting permanent workers from the risk of unemployment.

Our third hypothesis can be specified as follows:

H3: The more FTC holders face high risks of entrapment in the secondary labour market the more they give rise to a well-defined social group of marginal workers.

Since we interpret the effect of the economic crisis on the FTC training gap as a result of a group-level mechanism related to labour market segmentation, our third hypothesis is meant as a way to show the existence of such a labour market arrangement by means of its micro-level consequences. Where labour market flexibilization reforms have given rise to a two-tier labour market, FTCs have precise characteristics in terms of targeting and entrapment risks, i.e., they are more homogeneous in terms of age, gender, unemployment experiences and social class and much more likely to remain in the secondary segment of the labour market at late ages, especially if unskilled manual workers, as a result of entrapment dynamics. And, shifting to the firm level, if atypical workers constitute a homogeneous segment of the labour force also within workplaces, this might explain how employers could easily shrink FTC training costs to rapidly adjust firms’ investments according to the economic conjuncture.

We claim that these effects could be even stronger during a negative economic conjuncture.

We address these questions pooling three waves of the European Social Survey (ESS, namely 2004, 2006, and 2008).⁴ We selected nine countries representative of distinct labour market regulations and that we labeled consequently: Denmark, Sweden, Finland, Norway for the ‘flexicurity’ group; Belgium, the Netherlands, Germany, and France for the ‘conservative’ group; Spain as the only representative of the ‘Mediterranean’ group. Our main dependent variable concerns whether employees have taken ‘any course or attended any lecture or conference to improve [their] knowledge or skills for work’ during the last 12 months. The type of contract (limited versus permanent) is our main independent variable. In order to cope with our research hypotheses, we made use of two techniques.

First of all, we assessed the magnitude of the negative effect of FTCs on training by means of average marginal effects (AMEs) based on logistic regression estimates (-2.9 %). Then we focused on the effect of FTCs during economic downturns, shifting to a causal approach (-13% in the case of Mediterranean Countries).

In a cross-sectional setting, there are two major concerns in order to assess causality: the possible violations of the parametric assumptions and unobserved heterogeneity. To cope with the former issue, we ran a fully non-parametrical counterfactual analysis, which enabled us to detect the different impact of the economic crisis within the permanent and FTC groups across countries. The matching procedure performed is known as ‘genetic matching’. Not needing parametric formulation or distributional assumptions is no guarantee against the risk of distortion in the estimate of the causal effect. In this respect, we used the Rosenbaum sensitivity test as a measure of the robustness of our estimation in presence of unobserved heterogeneity (significance of the -12% gap over a gamma value of 1.5). Lastly, an analysis of temporary workers’ characteristics across different labour markets has been carried out by means of simulated probabilities based on logistic regression estimates, using the ‘clarify’ software. First, we predicted a heterogeneous negative impact of FTCs on training chances in different labour market settings, being stronger in those countries that undertook a partial and targeted labour market deregulation. Our analysis did not support this theoretical expectation, since in 2004 and 2006, after controlling for individual, job-related, and firm-level characteristics, minor effects of FTCs have been found, being statistically significant only in Northern countries.



Our second hypothesis dealt with the distribution of (potential) training retrenchments during the 2008 economic crisis. We expected an increase in the FTC training gap, being stronger in Central countries and Spain. While logit models supported this hypothesis, more cogent counterfactual analyses confirmed regression results only for Spain (-13%).

Lastly, in order to assess this finding, we argued that training costs could be shrunk by employers, to rapidly adjust firms' investments according to the economic conjuncture, only where FTC holders constitute a well-defined social group of marginal workers within workplaces. In other words, we expected that the cross-country distribution of training retrenchments among temporary workers mirrors the stratification of FTCs in different labour markets due to policy targeting and entrapment dynamics. Our results showed that, first, Spanish temporary workers are much more homogeneous in terms of those factors on which the partial and targeted reform strategy was based on (age, unemployment experience, and gender); second, the persistence of relevant shares of temporary employment at older ages mainly for the working class, as a result of entrapment dynamics.

The overall pattern of results of our article seems to confirm how the Mediterranean route towards labour market flexibility reinforced the effects of traditional sources of social inequality on a wide set of socio-economic outcomes, ranging from the well-known consequences in terms of employment and wage prospects but also training opportunities.

