

Fixed-term employment and its poverty implications: Evidence from Spain

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The growing importance of nonstandard work arrangements during the past two decades has been at the center of much public debate in the United States. Contingent employment and employment through temporary work agencies constitute a rapidly growing sector of the U.S. labor market, particularly among disadvantaged workers.¹ The U.S. debate has its counterpart in other developed nations, particularly in the European Union (EU), which has often been criticized for the “rigidities” of its labor market structure. In this article we offer a broad overview of contingent employment in one EU country, Spain.

In Spain as in the United States, employees with nonstandard work arrangements, particularly those on fixed-term contracts, have often been found to have lower job stability and lower pay compared to those in regular full-time jobs.² Fixed-term employees may have worse working conditions than those in similar permanent jobs, even after accounting for human capital differences; they experience frequent periods of unemployment and consequent sharp income fluctuations that endanger their economic self-sufficiency. They are thus exposed to a higher poverty risk than workers holding open-ended contracts.

We examine the links between fixed-term employment, earnings, and the likelihood of life in poverty using Spanish data from the European Community Household Panel (ECHP). The Spanish labor market provides a unique opportunity to study fixed-term jobs, as more than a third of its workforce is employed in such positions.³ We also investigate possible differences in the earnings and poverty implications of fixed-term employment between men and women and among employees with shorter- or longer-term contracts. We consider three kinds of short-term contracts: those lasting up to 6 months, those lasting up to a year, and those lasting more than a year.

The legal basis for short-term employment in Spain

Much current employment regulation in Spain is rooted in the 1980 Workers’ Statute and its 1984 reform, which recognized the need for flexibility and modernization of labor market institutions and employment contracts following the end of General Francisco Franco’s regime. The Workers’ Statute accommodated the needs of a changing labor market and an economy in recession by deregulating the use of fixed-term contracts by firms. In particular, the new regulations introduced an array of work relationships that departed from the previous pattern of paternalistic employment regulations that protected lifetime jobs. Fixed-term contracts offered firms the possibility of hiring and dismissing workers at a much lower cost. The Workers’ Statute also regulated working conditions for fixed-term and indefinite workers, requiring equal wages for the same type of job.⁴

As a result of these changes, fixed-term work quickly grew from less than 10 percent in the early 1980s to about 30 percent of the workforce in the latter half of the decade. In response to this rapid growth, reforms passed during the 1990s and in 2001 sought to provide incentives for firms to offer open-ended rather than fixed-term work contracts by reducing the dismissal costs associated with firing permanent workers. Fixed-term employment has shown considerable resilience, though it has fallen in magnitude from 35 percent in the mid-1990s to approximately 24 percent of all workers today.⁵ More important, despite the legislation’s mandate to pay equal wages, fixed-term workers have been found to earn lower wages than their counterparts holding open-ended work contracts.⁶

The Spanish workforce

The unemployment rate in Spain is relatively high (10–11 percent; see Figures 1 and 2 for men and women, respectively).⁷ This compares to 5.4 percent in the United States in 2004, and around 8 percent for the 15 European Union countries in 2004. Particularly notable is the low rate of labor force participation of Spanish women relative to female labor force participation in the United States; around 62 percent are not in the labor market (Figure 2), likely reflecting the relatively recent entrance of Spanish

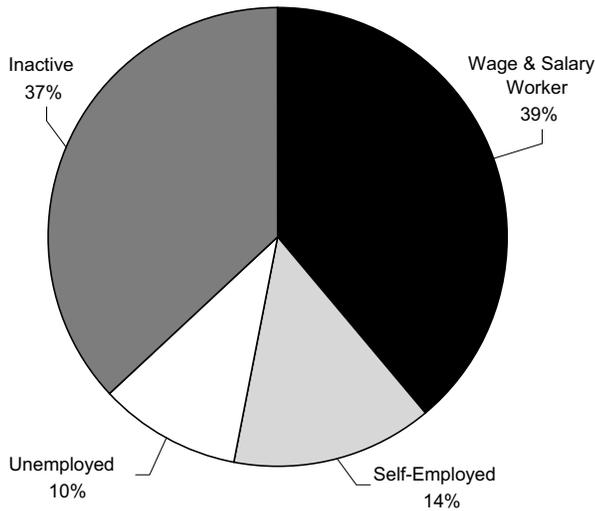


Figure 1. Work status of men.

Source: Spanish data from the European Community Household Panel, 1994–99.

women into paid work. Also notable is the significant fraction of male workers who are self-employed (about 14 percent; Figure 1). Some of this self-employment may mask unemployment.

More women than men hold fixed-term or informal jobs: 31 percent of male workers (Figure 3) and 43 percent of female workers (Figure 4). The percentage of workers in each fixed-term category is similar for men and women. The largest gender difference is found with respect to the fraction of men and women holding “other” wage and salary jobs. This large category includes positions such as apprenticeships, training jobs, and informal jobs lacking a formal work contract. The percentage of women holding this type of work arrangement—considered to be the



Figure 2. Work status of women.

Source: Spanish data from the European Community Household Panel, 1994–99.

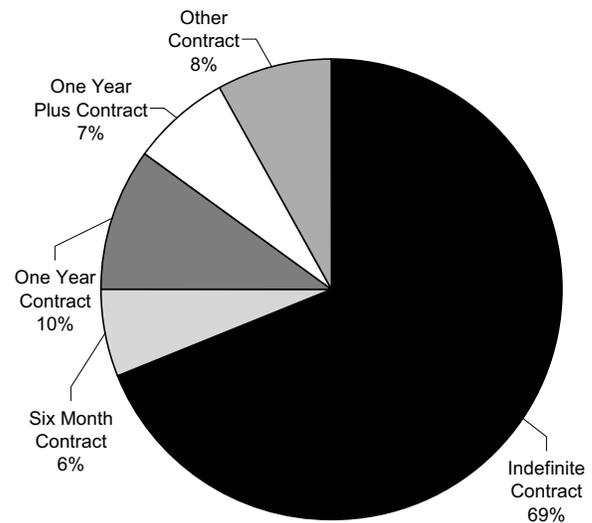


Figure 3. Contracts held by male workers.

Source: Spanish data from the European Community Household Panel, 1994–99.

lowest quality among all wage and salary jobs—is more than twice that of men in this category (18 percent compared to 8 percent).

Who are the fixed-term workers?

On average, fixed-term workers earn less than those with indefinite contracts, and longer contracts are associated with higher income. Some of the reasons are clear from the demographic characteristics set out in Table 1. Fixed-term workers tend to be younger and are less likely to be

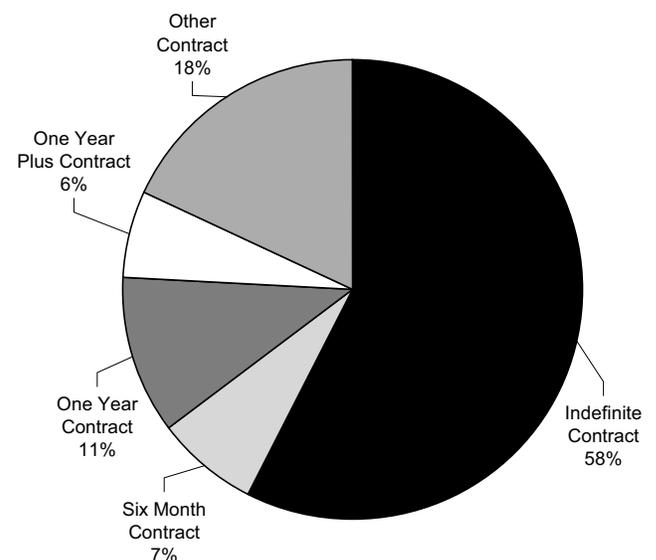


Figure 4. Contracts held by female workers.

Source: Spanish data from the European Community Household Panel, 1994–99.

Table 1
Demographic Characteristics of Men and Women in Permanent and Temporary Jobs

Demographic Characteristics	Men			Women		
	Permanent	Temporary		Permanent	Temporary	
		6 Months or Less	7 to 12 Months		6 Months or Less	7 to 12 Months
Labor income (in thousands)	2,079	757	1,005	1,627	626	818
Other income (in thousands)	1,254	1,590	1,681	2,223	1,869	1,939
Age	41	32	31	39	30	30
Married	76%	39%	38%	60%	40%	40%
Have college degree	23%	7%	7%	36%	15%	19%
<i>Occupation</i>						
Professionals/technicians	14%	5%	3%	25%	7%	11%
Office workers	11	3	5	20	19	19
Service workers	10	9	16	17	29	29
Unskilled workers	9	36	23	12	26	19
<i>Industry</i>						
Agriculture	3%	13%	5%	1%	4%	2%
Manufacturing	24	24	25	13	22	15
Construction	7	22	19	1	1	2
Trade	14	17	24	16	32	33

married than workers with indefinite contracts, suggesting that entry-level workers are particularly likely to be on fixed-term contracts. Fixed-term workers are also less educated and less skilled, as indicated by their occupations. Highly skilled workers in professional and technical occupations are more likely to hold an indefinite work contract than a fixed-term contract, whereas unskilled workers are unlikely to hold long-term contracts. Finally, fixed-term contracts are often linked to the temporary or seasonal nature of certain tasks. As a result, the incidence of fixed-term employment is significantly higher in agriculture, construction, and trade for men, and manufacturing and trade for women.

Poverty incidence

Lower earnings for fixed-term workers, relative to their counterparts with indefinite work contracts, are associated with an increased risk of poverty (Table 2).⁸ For both men and women, the poverty rate for workers with an indefinite work contract is considerably lower than the poverty rate for those with fixed-term contracts. The highest poverty rates are found among the unemployed and the self-employed. Workers in the “other” category have the next-highest poverty rates.

Poverty rates also vary among fixed-term workers according to the length of their work contracts; the shorter the duration of the work contract, the higher the poverty rate. Finally, the figures in Table 2 show that although overall poverty rates are similar for men and women, there are striking gender differences in poverty rates for particular job types. For instance, male employees with

short-term contracts of up to six months have a poverty rate 10 percentage points higher than that of their female counterparts. Similarly, the poverty rate for men with short-term contracts of six months to one year is twice that of women with comparable contracts.

Transitions into and out of poverty

In the United States, much of the debate concerning contingent work has centered on whether such jobs are a dead end, or whether they offer opportunities for unskilled individuals to move into employment and ultimately into better jobs—that they are, in effect, a ladder out of poverty. We explore this aspect of fixed-term employment in Spain in Table 3, which shows the transitions of fixed-

Table 2
Poverty Rates by Type of Job

Type of Job	Men	Women
Permanent	5%	2%
Temporary, six months or less	24	14
Temporary, seven to twelve months	14	7
Temporary, more than one year	8	7
Other salaried	27	24
Self-employed	28	25
Unemployed	37	31
Out of the labor force	19	20
All	18	19

Table 3
Poverty Transitions for Men and Women
by Work Status over a One-Year Period

Past Work Status	Poverty Transition	
	Men	Women
Nonpoor Entering Poverty		
Permanent	3%	1%
Six months	14	8
Up to one year	7	5
One year plus	7	3
Other salaried	13	13
Self-employed	16	15
Unemployed	19	19
Out of labor force	8	10
Poor Leaving Poverty		
Permanent	58%	56%
Six months	43	49
Up to one year	42	59
One year plus	73	84
Other salaried	40	35
Self-employed	50	50
Unemployed	34	38
Out of labor force	34	38

term workers into and out of poverty. Among those who were working and not in poverty at the beginning of the period, poverty entry rates are highest for the self-employed, followed by those in the “other” category. The next highest poverty entry rates among workers are for those with short-term contracts of up to six months. Even among fixed-term workers with longer contracts, poverty entry rates are two to three times as large as those for workers with indefinite contracts.

The second panel of Table 3 shows that workers with longer-term contracts of one year or more actually have higher poverty exit rates (of 73 to 84 percent) than workers with indefinite contracts (for whom this rate ranges from 56 to 58 percent). Since fixed-term work is often used as a means to enter the labor market, workers with longer fixed-term contracts may exhibit greater upward income mobility than their counterparts with indefinite work contracts, who could be stuck in dead-end permanent jobs (one should bear in mind, however, that those in permanent jobs have poverty rates very much smaller than all fixed-term workers, as Table 2 shows). Fixed-term workers with short-term contracts were once again at a disadvantage, with significantly lower rates of exit from poverty (42 to 59 percent).

Conclusions

Two of the defining characteristics of the Spanish labor market are its traditionally high unemployment rates and high rates of fixed-term employment. This environment increases the value of job security to Spanish workers as well as the likelihood of poverty for workers with more precarious work arrangements.

Workers with fixed-term and other nonstandard work arrangements are typically younger, less educated, less skilled, and earn lower incomes than their counterparts with open-ended contracts. They also have poverty rates nearly 5 times larger than those with indefinite contracts. In fact, it is men and women holding shorter-term fixed contracts of up to one year who display the highest rates of persisting poverty among all workers.

Overall, the study suggests that not all short-term work is created equal. Fixed-term contracts of a year or more, for example, may help lift workers out of poverty. But as long as workers with short-term contracts continue to make up a substantial proportion of all workers, we need a better understanding of the poverty implications of short-term work. ■

¹C. Heinrich, “Performance Management in Federal Employment and Training Programs,” *Focus* 23, no. 1 (2004): 20–26; D. Autor and S. Houseman, “The Role of Temporary Employment Agencies in Welfare to Work: Part of the Problem or Part of the Solution,” *Focus* 22, no. 1 (2002): 63–70.

²J. Handler, *The Poverty of Welfare Reform* (New Haven: Yale University Press, 1995); J. Peck and N. Theodore, “Commentary: ‘Work First’: Workfare and the Regulation of Contingent Labour Markets,” *Cambridge Journal of Economics* 24, no. 1 (2000): 119–38; S. Houseman, *Temporary, Part-Time, and Contract Employment in the United States: A Report on the W.E. Upjohn Institute’s Employer Survey on Flexible Staffing Policies*, Report to the U.S. Department of Labor, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 1997; L. Segal and D. Sullivan, “Trends in Homeownership: Race, Demographics, and Income,” Federal Reserve Bank of Chicago *Economic Perspectives* 22, no. 2 (1998): 53–72. In the United States, workers with fixed-term contracts may also be known as limited-term employees, or LTEs.

³*Encuesta de Población Activa 2003* [Survey of the Working Population], conducted quarterly by the National Institute of Statistics (INE).

⁴The Supreme Courts have reaffirmed the unconstitutionality of paying different wages to workers carrying out the same type of job on various occasions; see TS 13-5-91, RJ 3909, RJ 5483, and RJ 118. Additionally, the Constitutional Courts in TCo 177/1993 have stated that shorter contract duration is not sufficient to justify a lower rate of pay. For these legal decisions see *Memento Social 2004*, published by Francis Lefebvre, S.A., Spain.

⁵This figure remains 35 percent when other nonindefinite workers, such as employees in apprenticeships or/and informal jobs lacking a written contract, are included.

⁶J. Jimeno and L. Toharia, “The Effects of Fixed-Term Employment on Wages: Theory and Evidence from Spain,” *Investigaciones Económicas* 17, no. 3 (1993): 475–94; S. Bentolila and J. Dolado, “Labor Flexibility and Wages: Lessons from Spain,” *Economic Policy* 18 (1994): 53–99.

⁷Data used here come from six consecutive waves (1994–1999) of the European Community Household Panel, a longitudinal survey of European Union member countries. The survey includes 8,000 households from Spain.

⁸We used a relative poverty line defined as falling below 60 percent of the median modified OECD equivalent income used by EUROSTAT. According to this scale, the number of equivalent adults, which measures the household needs normalized by the needs of a single adult, is given by: $[1 + 0.5*(\#Adults) + 0.3*(\#Children)]$, and where: Equivalent income = (Household Disposable Income/Equivalent Adults).

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