ANNEX 4 – ETUC's Priorities for Annual Growth Survey 2015

Segmented labour markets: going beyond the simple story of "insiders versus outsiders"

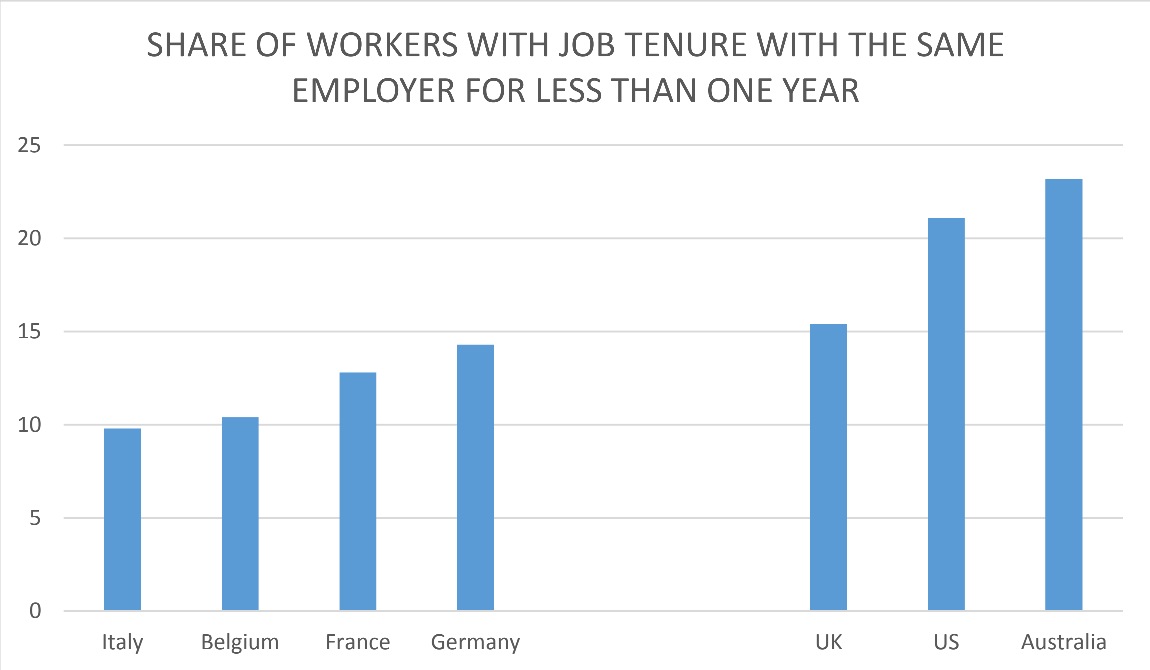
The policy debate in Europe on the phenomenon of precarious jobs is usually framed in terms of a discussion on 'insiders' being protected at the expense of 'outsiders'. The argument advanced is that high levels of protection of open ended (permanent) contracts leave employers with no other choice other than to resort to all sorts of insecure contracts, in order to increase flexibility. Workers with a regular/standard labour contract are, thereby, immediately cast in the role of causing segmentation on the labour market.

The policy response is then all too predictable: significantly reduce the protection embedded in open ended contracts so as to incentivise employers to reduce their use of fixed term or other atypical contracts. A recipe which has also come to be known as the so called 'single (read flexible) open ended contract'.

The arguments above are based on the view that any open ended contract is by definition stable. This view, however, is rather superficial and does not correspond with the reality on the labour markets.

A closer look at the labour markets of the Anglo Saxon world illustrates this vividly. Labour markets in the US, the UK and Australia are indeed characterised by a very low share of temporary contracts, accounting for no more than 6% of all dependent workers. This contrasts with European continental economies such as Germany, France, Italy, Belgium and the Netherlands where the same share of temporary contracts ranges from 10 to 16%. On this measure, it would appear that the Anglo Saxons score better on the issue of (lower) labour market segmentation.

However, a completely different picture emerges by looking at the reality behind the temporary contract data and by focussing instead on the number of (dependent) workers that hold short tenure jobs (i.e. the share of workers who are doing the same job, with the same employer for less than a year). The graph below (right hand side) shows that the share of short tenure workers is highest in the UK, US and Australia, whereas the so called 'segmented' labour markets of Italy, Belgium and France score much better.



Source: OECD database

The fact that the latter (former) economies have a significantly higher (lower) share of workers who experience a more stable employment relationship should not come as a surprise. Indeed, labour market segmentation can be tackled in two totally different ways:

- by levelling up and ensuring employers do not abuse atypical/non-standard work contracts (for example by using chains of fixed term contracts in which the same worker is employed in the same job, with the same employer over long periods of time); or,
- by levelling down and reducing the job protection in open ended contracts to such an extent that the open ended contract itself becomes as insecure and precarious as the temporary/non-standard work arrangements.

The latter, levelling down, approach allows, as is the case in the UK and the US, the problem of labour market segmentation to be resolved on paper (a low incidence of temporary contracts), but not in reality. In fact, this is not a real solution since there will still be a high share of workers in unstable short term employment relationships even if these workers are employed under a formal open ended contract.

Importantly, this approach also implies that all of the social and economic disadvantages and costs generated by unstable employment relationships will remain even if, formally, the share of temporary contracts is going down. We will still have:

- Lack of investment in workers' training: if an employer can easily fire its workers, at low or no cost, then that employer has no incentive to look at the alternative of internal or functional flexibility, thereby re-employing workers in other functions when problems in the markets for its products or services arise. The direct consequence of this is that employers are not much interested in training their workforce and maintain and promoting workers' skills levels. If the company is hit by a negative economic shock, the employer will not need a generally skilled workforce since it can fire workers easily instead of having to resort to internal functional flexibility. The simple fact is that easy firing turns workers into a commodity instead of an asset to invest in.

- A lack of 'social capital': workers, knowing that they can be fired almost overnight, will not feel committed or loyal to the company. As a result, their productivity will suffer. This, in turn, increases the need (and cost) for business to supervise workers through high layers of management. For example, the density of managers is above 10% in economies with short tenure jobs but only between 2 and 5% in better regulated labour markets.

- A lack of innovation: short tenure jobs weaken the ‘historic memory’ of organisations and also leaves companies vulnerable to the problem of having valuable company knowledge leaking away to competitors through high worker turnover, thus reducing the incentive for them to invest in innovation. ‘Easy firing’ also makes workers reluctant to provide critical but necessary feedback from the shop floor to management. Nor will workers be inclined to suggest or participate in innovation of the workplace since such participation is likely to cost them their job.