"la Caixa" Foundation

Inequality and social contract

Outreach report

Job uncertainty and income redistribution preferences

How labour market duality affects redistribution preferences

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Abstract

Spain stands out in Europe for the high degree of duality in its labour market. Two groups of workers subject to different levels of protection were created after deregulating the use of temporary contracts in 1984: permanent contract workers and temporary workers. This duality may lead to differences in job and income insecurity and therefore preferences for income redistribution. This paper provides evidence that workers with temporary contracts demand more income redistribution, and this demand is more pronounced among workers aged 30 and over and those with lower levels of education.

Main ideas

1

Spain stands out for its high use of temporary contracts, with an average of 27% of workers having temporary contracts during the period 2005-2019.

2

The use of temporary contracts is particularly high among young people, with an average of 65.4% of employees under 25 years of age on temporary contracts between 2006 and 2019.

3

Spain is a country with a strong preference for redistribution, and people on temporary contracts support this even more.

4

People with temporary contracts have a greater preference for redistribution, regardless of gender, age or education, although the increase is more pronounced among those aged 30 and over and those with lower education levels.

5

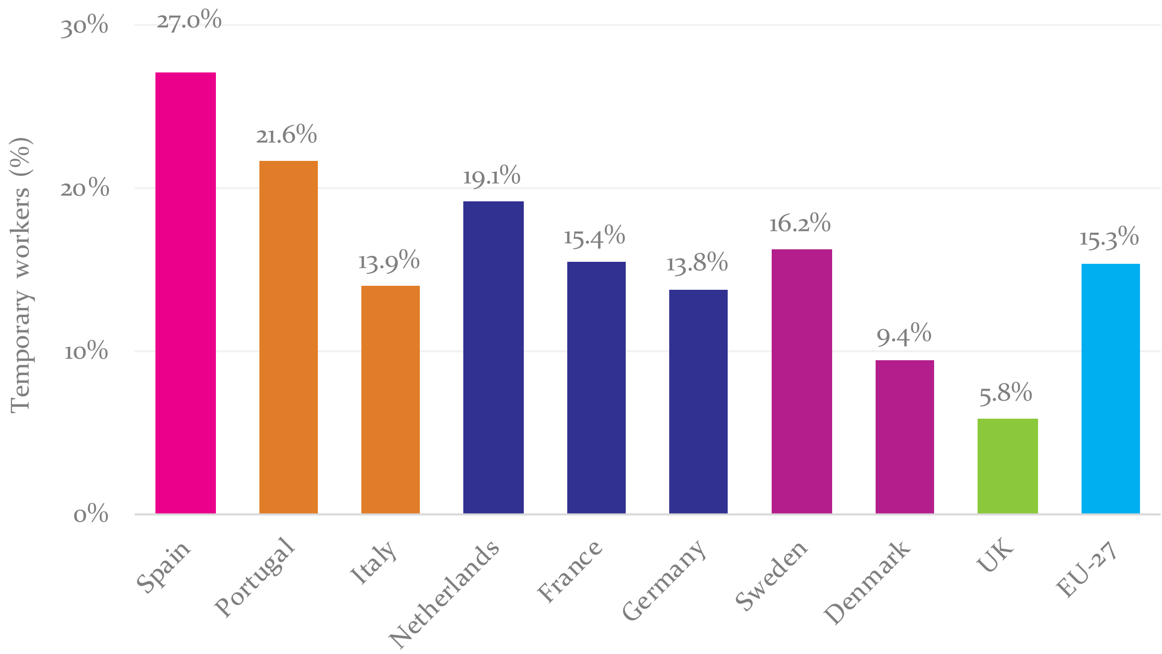
The preference for redistribution in times of crisis increases for all workers, although this increase is even higher when it comes to workers with permanent contracts.

1 Spain stands out in Europe for its high use of temporary contracts

The deregulation of the use of temporary contracts that took place in Spain in 1984 has led to an extremely high level of labour market duality. In fact, Spain is the EU country with the highest percentage of people with temporary contracts, with an average of 27% of employed people having a temporary contract during the period 2005-2019. This percentage is much higher than in other Mediterranean countries (21.6% in Portugal and 13.9% in Italy), in central European countries (19% in the Netherlands, 15.4% in France and 13.7% in Germany), in northern European countries (16.2% in Sweden and 9.4% in Denmark) and in the United Kingdom (5.8%). It is also much higher than the EU-27 average of approximately 15%.

Dual labour markets are typified by groups of workers with major differences in protection against job loss. Workers with permanent contracts in Spain, known as "insiders", have a much higher degree of employment protection than workers with temporary contracts, or "outsiders". The key factor determining this duality is the differential cost of severance pay depending on the type of contract. The lower legal protection of people with temporary contracts is exacerbated by the dynamics of the labour market, which have led to companies offering these people less training and lower wages, among other effects. People with temporary contracts are also those suffering most from the destruction of employment during times of crisis. All of this may have a dif-ferential effect on the way people view income insecurity and increase inequality as a result of this.

Figure 1: Spain has extremely high labour market duality compared to the rest of Europe
Workers with temporary contracts as a share of total workers, 2005-2019 average



Source: Eurostat.

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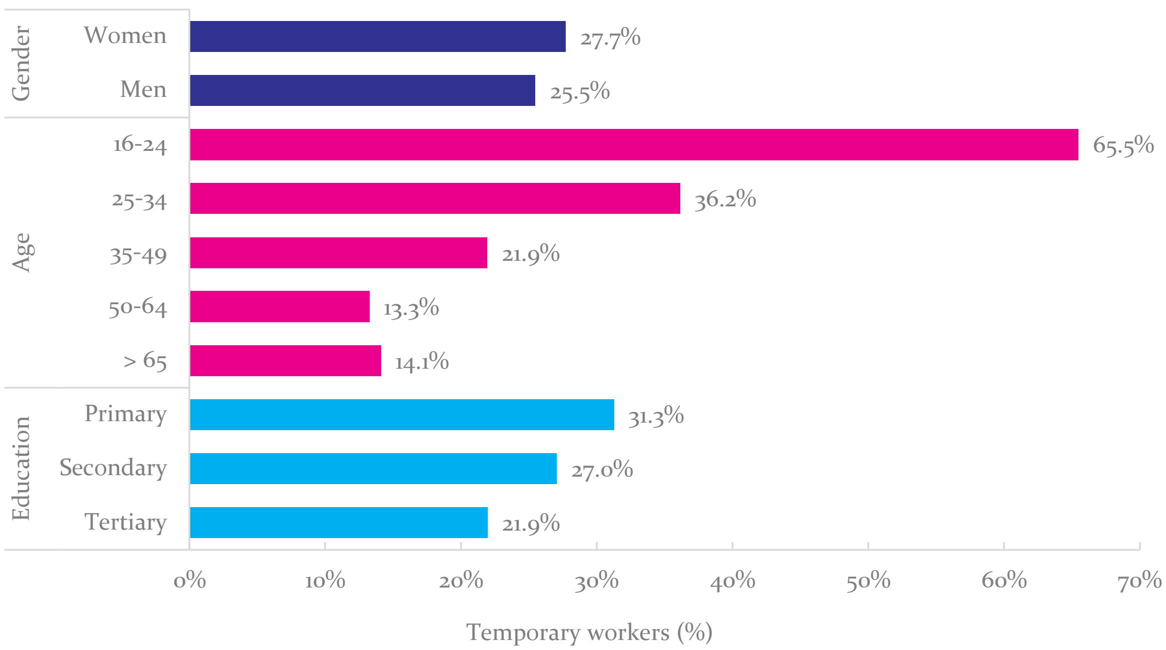
2 The use of temporary contracts is extremely high in general, particularly among young people

The existence of temporary contracts tends to be more predominant among certain groups: women, employed people with lower levels of education or those entering the labour market after a period of unemployment, as well as young people. The latter is clearly the group with the highest percentage of temporary contracts, with an average of almost two thirds (65.4%) of employed people under 25 years of age having a temporary contract in Spain during the period 2006-2019. Some of this percentage can be explained by the fact that this type of contract is commonly used when a person enters the labour market. The data also show that the use of temporary contracts is more widespread among immigrant workers, although the use of temporary contracts is also present among older employees, for all educational levels and in both genders. This extensive use of temporary contracts may perpetuate the perception of job insecurity by these workers and lead to a greater demand for redistribution in order to reduce differences in income levels.

Figure 2: Temporary contracts are more commonly used to hire young people, although their use can be found in all groups

Percentage of workers in each group with a temporary contract, 2006-2019 average



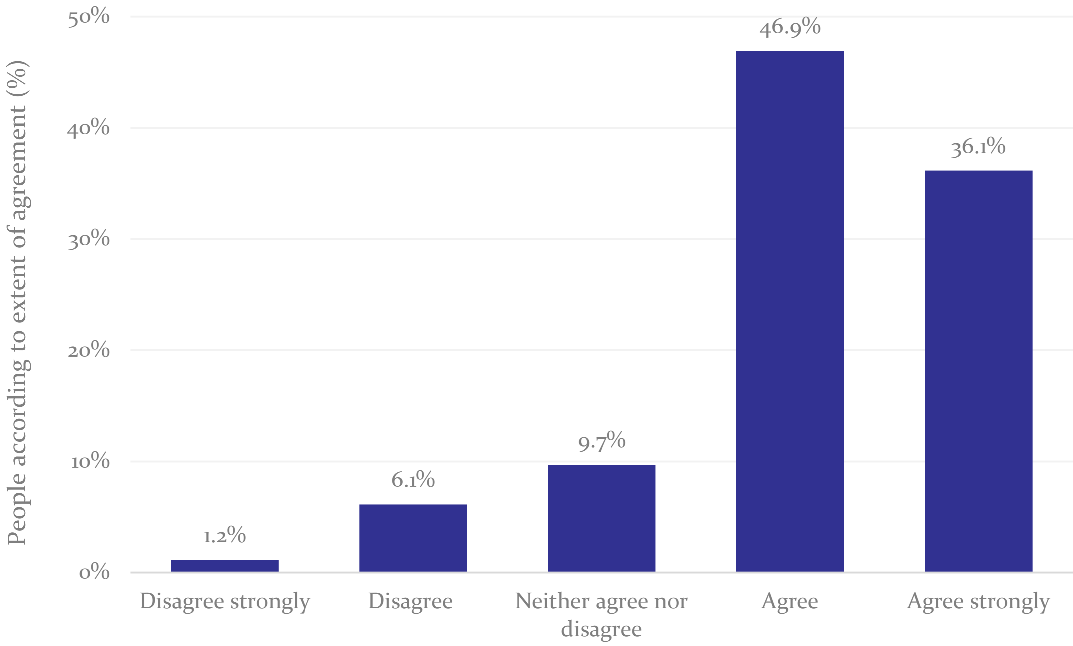
Source: Labour Force Survey (EPA), 2006-2019, INE.

3 Spain is a country with a strong preference for redistribution, and people on temporary contracts support this even more

When Spaniards were asked to what extent they agreed with the statement "The government should take measures to reduce differences in income levels" for the period 2002-2019, some 83% of them replied that they "agree" (46.9%) or "agree strongly" (36.1%). This high degree of support with the statement shows that Spaniards are very much in favour of income redistribution. Nonetheless, preferences for redistribution are conditioned by various characteristics, such as gender, age, education or political ideology. The characteristics of the institutional environment may also be a determin-ing factor.

Figure 3: The majority of people in Spain support government intervention to reduce differences in income levels

Percentage of people according to their reply to the statement "the government should take measures to reduce differences in income levels", 2002-2019

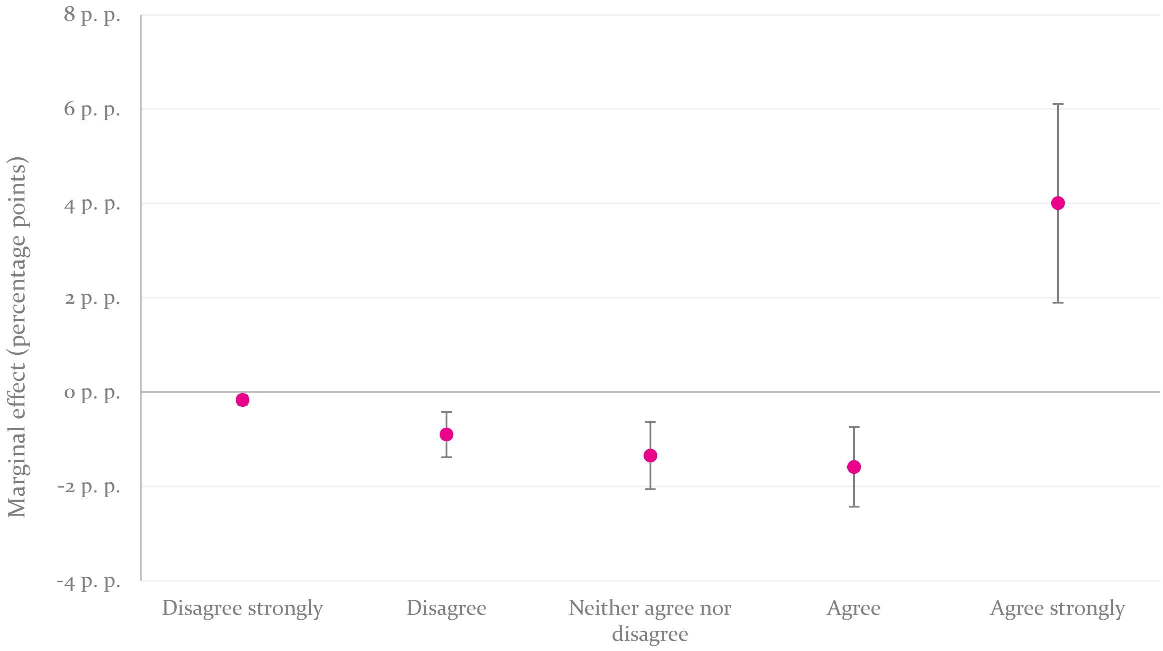


Source: European Social Survey.

Let us turn now to the nature of the contract to which people are subject. Irrespective of their ideology and comparing the same people in other factors that determine preferences for redistribution and type of contract (gender, age, education, having been previously unemployed and belonging to a minority), it can be seen that having a temporary contract increases by 4 percentage points the likelihood of stating "agree strongly" that the government should reduce any observed differences in income levels. On the other hand, having a temporary contract reduces the likelihood of agreeing less strongly with this statement.

In addition to the aforementioned characteristics, these results are also true when comparing people with similar income levels living in the same autonomous community. This greater demand for public insurance by people employed on temporary contracts is apparently motivated by the job and income insecurity stemming from this type of contract.

Figure 4: Having a temporary contract increases the preference for income redistribution
Difference in percentage points of the probability of stating a specific reply to the statement "the government should take measures to reduce differences in income levels" as a result of having a temporary contract, 2002-2019



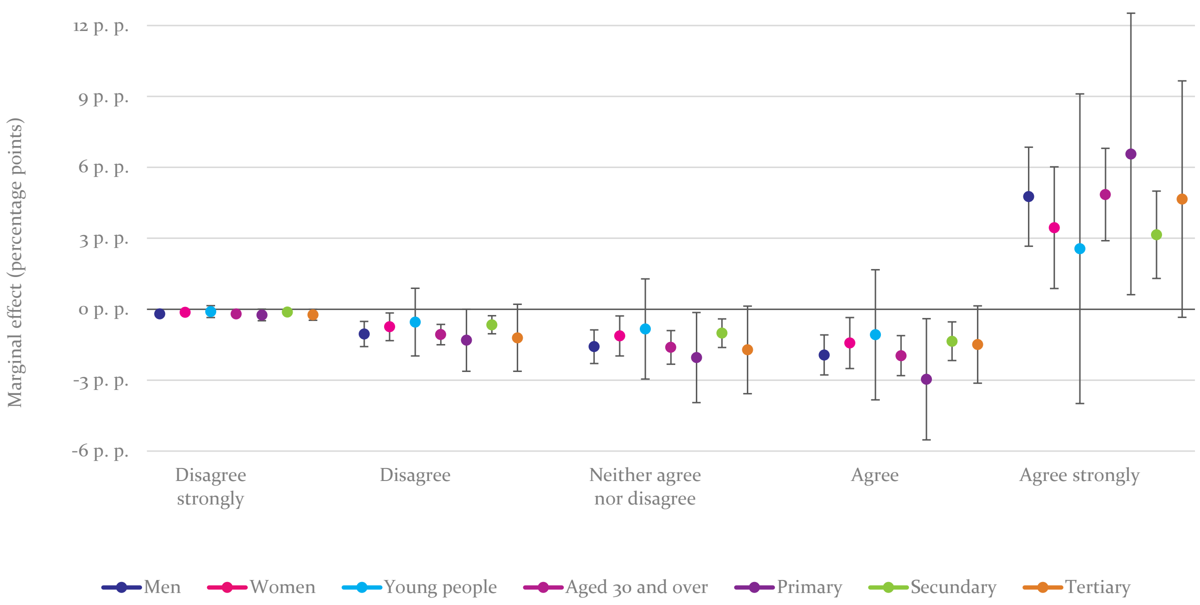
Source: compiled by the authors based on the European Social Survey for Spain, 2002-2019.

4 People with temporary contracts have a greater preference for redistribution

Having a temporary contract increases the likelihood of maintaining a high preference for redistribution among people of all ages and levels of education, as well as for both men and women. However, its impact on the preference for redistribution is lower among younger people (defined as those under the age of 30). For this group, having a temporary contract increases by 2.5 percentage points the probability of replying they "agree strongly" that the government should reduce differences in income levels. In contrast, this increase is 4.8 percentage points among people aged 30 and over. In terms of education level, having a temporary contract increases the probability of stating a preference for the highest level of redistribution by 6.6 percentage points for people with primary education, by 3.1 percentage points for people with secondary education and by 4.7 percentage points for people with university education.

Figure 5: Having a temporary contract increases the preference for redistribution among all groups, especially for those aged 30 and over and those with a lower level of education

Difference in percentage points and by group of the probability of strongly agreeing with the statement "the government should take measures to reduce differences in income levels" as a result of having a temporary contract, 2002-2019



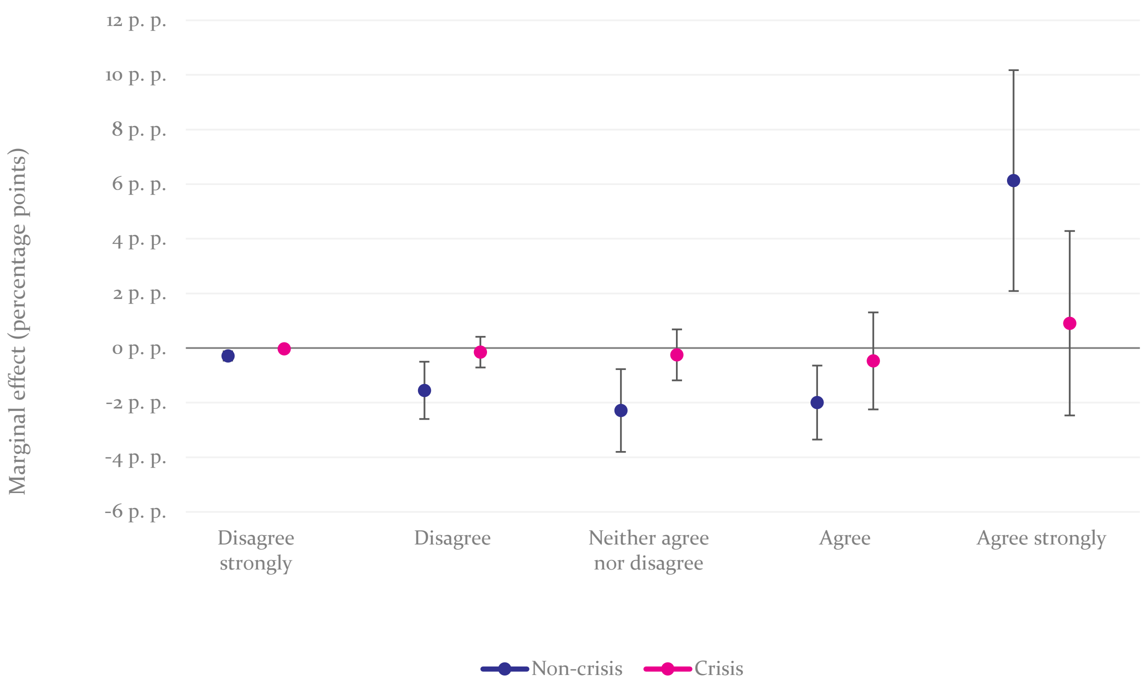
Source: compiled by the authors based on the European Social Survey for Spain, 2002-2019.

5 The preference for redistribution in times of crisis increases for all workers, although this increase is even higher when it comes to workers with permanent contracts

The uncertainty associated with the labour market increases for all workers during an economic crisis. If preference for redistribution is understood as the demand for public insurance against reductions in income, it would be expected that this demand would be higher for all workers in times of crisis, irrespective of their type of contract. And this is precisely what can be observed: the differential effect of the type of temporary contract on the preference for redistribution practically disappears in times of crisis. Thus, in times of adverse macroeconomic conditions, having a temporary contract increases by only 1 percentage point the probability of people replying they "agree strongly" that the government should reduce differences in income levels. In contrast, this increase is 6 percentage points in times of growth.

Figure 6: The differential impact of a temporary contract on the preference for redistribution is much more pronounced in times of economic growth

Difference in percentage points of the probability of stating a specific reply to the statement "the government should take measures to reduce differences in income levels" as a result of having a temporary contract according to different macroeconomic situations, 2002-2019



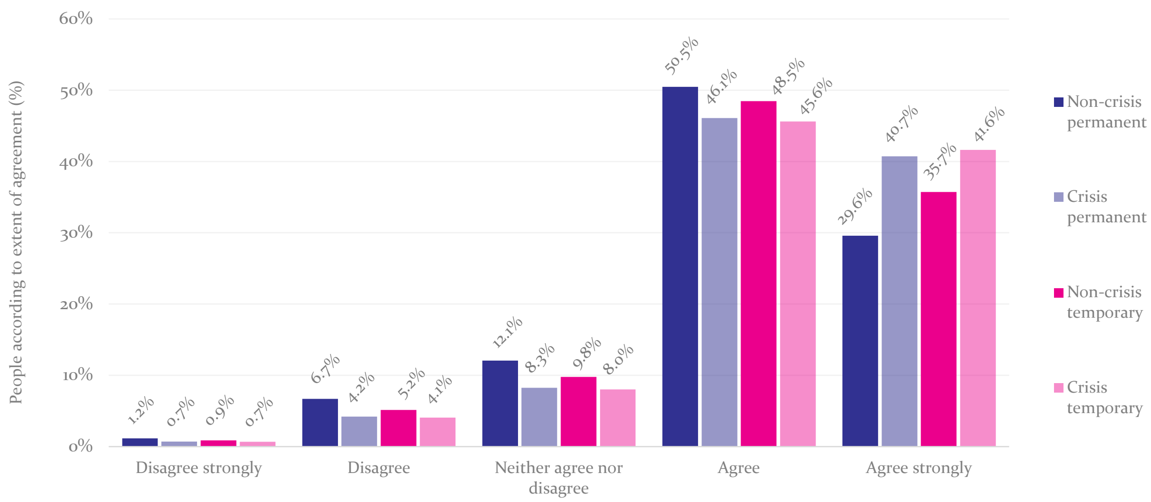
Note: *the "crisis" period considered includes data from 2008, 2010, 2012 and 2014. The "non-crisis" period includes 2002, 2004, 2006, 2016 and 2018.*

Source: compiled by the authors based on the European Social Survey for Spain, 2002-2019.

Times of crisis increase the perception of job insecurity for all employed people. This rise is more pronounced among those with permanent contracts, as they start from employment conditions associated with a considerable level of security. In times of economic growth, 29.6% of those with permanent contracts express the highest preference for redistribution. This percentage increases to 40.7% in times of crisis, which is equivalent to an increase of 11 percentage points. Nonetheless, the increase is only 6 percentage points (from 35.7% in times of growth to 41.6% in times of crisis) in the case of people with temporary contracts. It is therefore expected that the covid-19 pandemic has increased the preference for redistribution of the entire population for the reasons outlined above. Heightened sensitivity to the need for more comprehensive social insurance may provide an opportunity to respond to the demands of groups exposed to greater job insecurity that have not been addressed so far.

Figure 7: The macroeconomic situation has a stronger effect on the preference for redistribution of people with permanent contracts

Difference in percentage points of the probability of stating a specific reply to the statement "the government should take measures to reduce differences in income levels" by type of contract and macroeconomic situation, 2002-2019

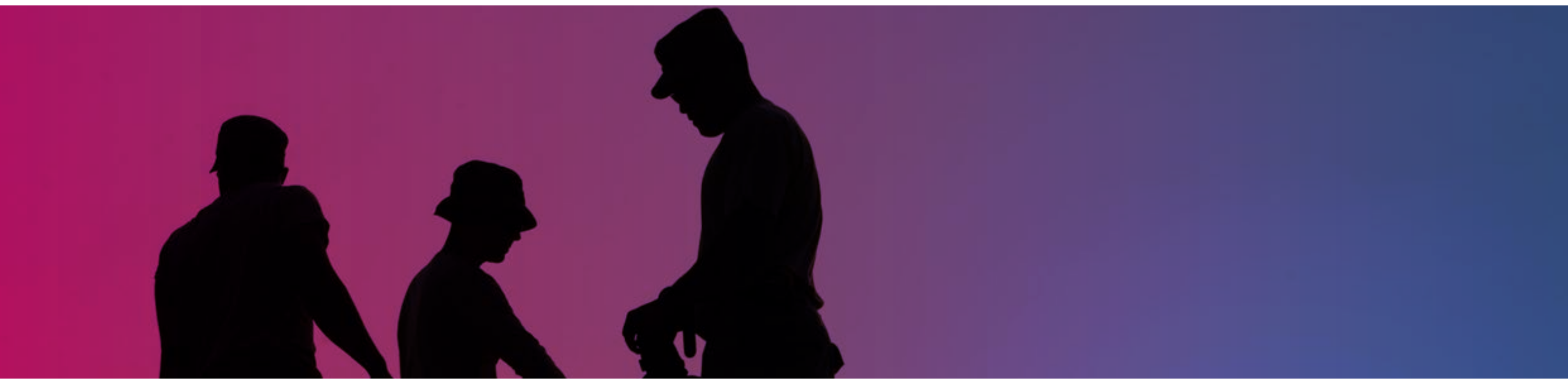


Note: *the "crisis" period considered includes data from 2008, 2010, 2012 and 2014. The "non-crisis" period includes 2002, 2004, 2006, 2016 and 2018. "Permanent" and "temporary" refer to the type of contract.*

Source: compiled by the authors based on the European Social Survey for Spain, 2002-2019.

Conclusions

This study demonstrates that people with temporary contracts have a greater preference for redistribution, which is stronger among people aged 30 and over and with lower levels of education. The preference for redistribution increases for all employed persons in times of crisis. This increase is especially stronger among those with permanent contracts, thereby reducing the differential effect caused by the type of contract. These results show that the institutional design of the labour market leads to an important duality in terms of the perception of income insecurity of employed persons according to their type of contract. The fact that this effect is more pronounced among people aged 30 and over and not among young people proves that temporary contracts increase insecurity more when their use is not explained by the worker's recent entry into the labour market. The lower impact with increasing education shows that education contributes to job security. The high preference of people with temporary contracts for redistribution, understood as a greater demand for public insurance that is not satisfied, highlights the need to design policies focused on easing the job and income uncertainty stemming from this type of contract, including the control – but not the elimination – of temporary contracts. Finally, the need to improve protection against labour market insecurity in a broad sense highlights the importance of such policies as minimum living income.



Proposed actions

1

Labour market reforms are required to alleviate the duality in the level of worker protection.

2

The regulation of the use of temporary contracts should be amended to better limit and control this type of contract.

3

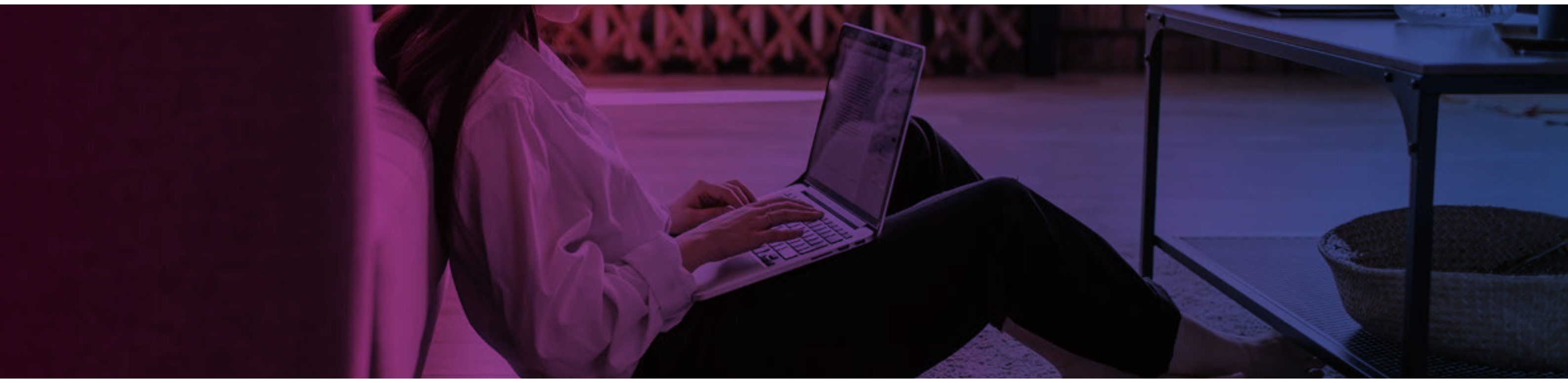
Education increases the possibility of having a permanent contract and makes it easier to find a job. Actions related to job market regulation should therefore be complemented with educational policies focused on reducing school dropout rates and improving training.

4

There is a need to promote lifelong learning for workers because of the way this positively impacts labour mobility.

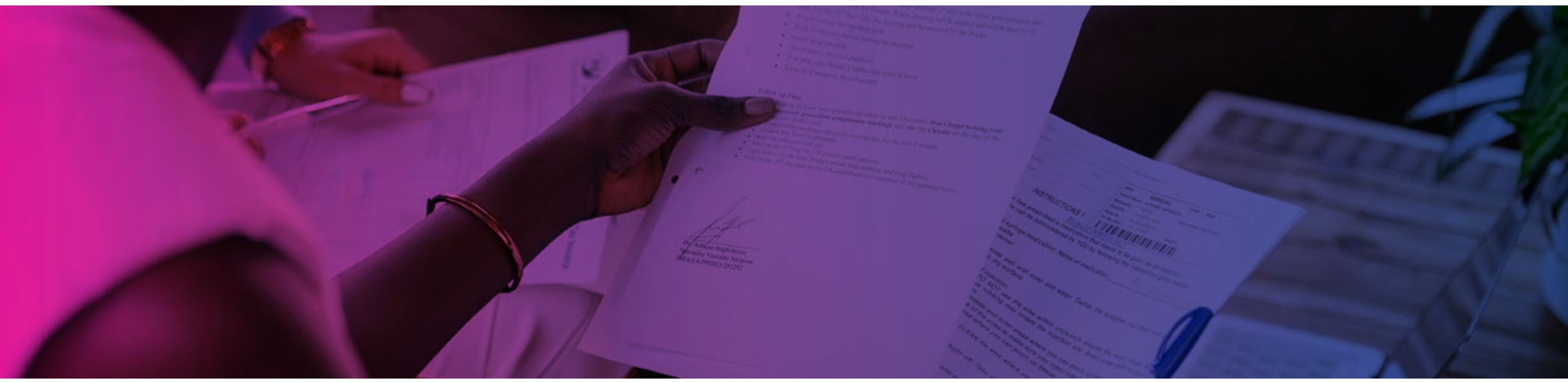
5

The need to improve protection against labour market insecurity, accentuated by the covid-19 crisis, provides renewed importance to the debate on such policies as minimum living income.



Study characteristics

In order to identify the effect of temporary contracts on redistribution preferences, panel data would ideally be needed in which individuals could be monitored over time to observe how their preferences change as the type of contract they are subject to changes. As this is not possible, the effect is estimated by comparing identical individuals in the characteristics that primarily determine redistribution preferences (gender, age, education, having been previously unemployed and belonging to a minority), although differing in the type of contract. People's income is a determining factor of their redistribution preference and should therefore be incorporated in the analysis, but the poor quality of the European Social Survey data on this variable means that this is inadvisable. Nonetheless, gender, age and education are good predictors of people's income. The results hold after performing a robustness analysis in which people's income (within large bands) has been incorporated. There was also a desire to compare people within the same production sector, but once again the data do not allow this.



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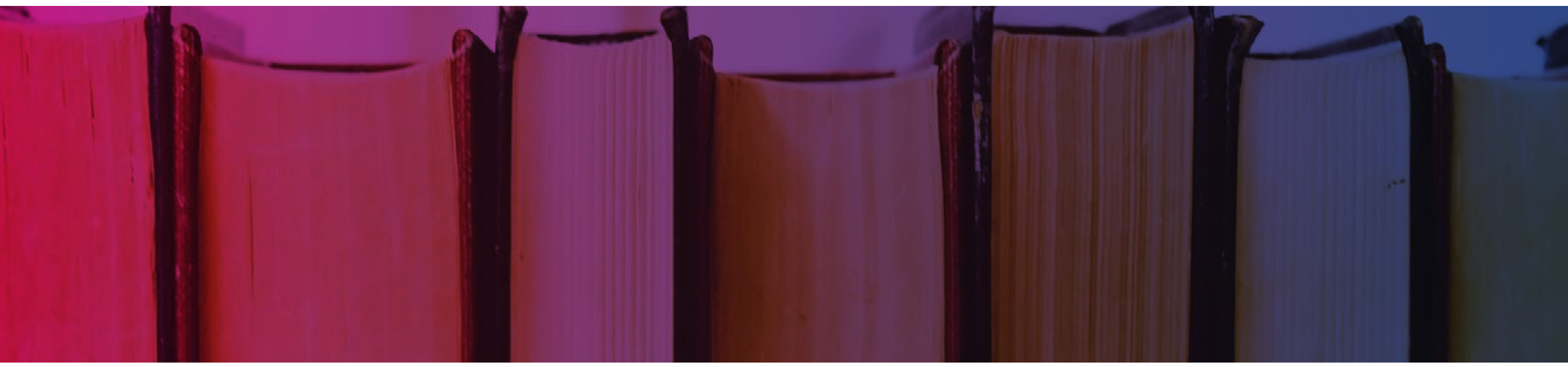

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