

Summary and conclusions

Introduction

In the literature flexible labour is defined in many ways. The focus in this dissertation is on employment contracts which are different from the standard full-time permanent employment contract. For that reason we have labelled them as non-standard or non-regular contracts. The definition of flexible or non-standard labour embraces numerous forms of non-standard employment contracts: part-time work, temporary jobs, temporary agency jobs, on call contracts, substitute work, casual work and min-max contracts. Important common characteristics of these jobs are that they are often limited in duration, there is some degree of uncertainty involved in the number of hours of work per week; the number either being flexible or consisting of only a few hours per week. The choice for the definition of flexible labour is also determined by the practical requirement to be able to apply it in more than one country for which reason country specific exemptions are not taken into account. The terms flexible and non-standard labour are used interchangeably in this dissertation.

The question that now arises is whether these jobs are a problem. Are these jobs beneficial to workers careers or do they hamper their

employment and wage careers. In other words, are non-standard employees worse off than standard employees? Are non-standard jobs only serve flexibility goals of employers or do they also serve the employees flexibility in terms of being able to combine work and other activities? Generally speaking, it is difficult to make economically funded statements about these questions. As always: it depends. How long do people have non-standard jobs? Do they use them as stepping-stones towards standard employment often, or do they in the end lead to exit into unemployment or nonparticipation? Do experiences in non-standard jobs have similar scarring or stigma effects as unemployment experiences? Answers to these questions are necessary to assess whether the (further) promotion of non-standard jobs is desirable for workers, the worker, the employer or the labour market as a whole. This is relevant and important because many European governments have opted for promoting flexibility by enlarging the opportunities for employers to engage workers in non-standard contracts. International organisations such as the OECD and the European Commission have also supported policies that endorse labour market flexibility in general and the creation of flexible contracts in particular.

A next set of questions deal with the mobility of non-standard workers: which groups of workers (young/old, male/female, high/low education, etc.) occupy non-standard jobs and to what extent do they move on to standard employment in the following years? What factors determine mobility into permanent jobs? To investigate these questions we look the careers of individual employees and their labour market and job mobility in particular. Do employees with a flexible (non-standard) employment contract make a transition to a standard employment contract or not? Do non-standard workers have a bigger probability to find a standard job than unemployed workers or not? Which individual characteristics (age, gender, educational level, etc.) and household characteristics (number of people in the household, number of children, etc.) are determining the transition probability and how large are these effects? To what extent do differential effects of the same factors account for the variation across countries? Can these differential effects be attributed to different institutional arrangements on their respective labour markets?

Does the speed of the transition process from non-standard to standard employment also result in increases in the wage level? Do workers on flexible non-standard contracts indeed receive lower wages? And does this effect still have an impact in the career later on? This type of question relates to another form of economic mobility, wage mobility.

Apart from investigating the role of individual and household characteristics on labour market transitions of individual workers, in this dissertation we also attempt to assess the impact of institutions on these transition patterns. A general hypothesis is that individual labour market outcomes are also influenced by labour market institutions such as the social security or benefit system, the tax system, labour relations and labour law, to name the most important ones.

In the labour economics literature, the level of unemployment benefits, the marginal tax rate and employment protection legislation have played an important role in the discussions on the role of institutions on the labour market. In the theoretical job search model that is applied in most of the analyses in this dissertation, these institutions can be incorporated without too much trouble. There are plenty of studies in the literature which have tried successfully to deal with them. A bigger problem is incorporating non-standard jobs into the theoretical job search framework. This problem has not been addressed in much detail in the labour economics literature. Therefore it is an important challenge to which this dissertation tries to contribute in particular from an empirical perspective.

To answer the questions mentioned above, we need repeated observations on individual workers in different countries. In this dissertation we use household panel data sets that provide detailed information about the individuals and the households they live in. Information is available on their labour market status, on their position in the household, their employment history, etc. and on changes in these variables over time. We have used data from three different countries. For the Netherlands, the data were provided by Netherlands Statistics (CBS) in the form of the Dutch Socio-Economic Panel (SEP). For Germany, the data were provided by the Deutsche Institut für Wirtschaftsforschung (DIW: German institute for Economic Research)

in Berlin in the form of the German SOcio-Economic Panel (GSOEP). Finally, the British Household Panel Survey data for Great-Britain are provided by the Institute for Socio-Economic Research (ISER) at the University of Essex. These country panels provide more in-depth information and longer time series than the similarly designed European Household Community Panel (ECHP), which has the advantage of providing data for more EU countries but over a shorter time horizon. The three national panel data providers are also providing the (harmonized) data in the ECHP.

The panel data sets for the individual countries have in common that they provide fairly detailed information about the type of employment contract that workers possess in each year of the research period. The data is available for a common period, from 1991 to 2001. We could not make use of more recent data for Great Britain and Germany because the Dutch Socio-Economic panel was discontinued after 2001.

Results by chapter

Chapter 1 is theoretical and gives an extensive overview of the problems associated with incorporating non-standard jobs into standard labour economics models. Since we only use employee data almost exclusive attention is given to labour supply models describing the behaviour of employees on the labour market. The behaviour of employers is assumed to be exogenous and only plays a role in the job search models in the form of the assumption of a constant number of non-standard job offers occurring at regular time intervals to the worker.

Another goal of the first chapter is to position the thesis in the theory. The theoretical approach in this dissertation fits within the broader spectrum of neoclassical labour economics theory and institutional economics, respectively. Theories with regard to labour supply can also be coarsely subdivided into these two strands of the literature. They are often presented as contradictory and even mutually exclusive, but it was shown that they might supplement each other rather than that they contradict. The incorporation of institutions in the neo-classical

framework enriches it and makes it a valuable tool for studying labour market phenomena. There exists also more overlap between these paradigms than their proponents often account for. The main research questions in this dissertation are discussed and related to the various theoretical concepts and earlier empirical work based on these concepts.

On the basis of the theoretical models presented in the first chapter, in **Chapter 2** econometric models were presented that were subsequently used in the empirical analyses in the chapters 3, 4, 5, 6, and 7. In this chapter, it was argued that not all theoretical insights can be translated into econometric empirical models with testable hypotheses. The models in this dissertation are necessarily of a 'reduced form' since the estimation of structural models would require data on the behaviour of employers and these are not available for the countries in this study.

Three groups of econometric models were distinguished. Firstly, we developed discrete transition models in order to analyse job mobility patterns on the three labour markets. A number of labour market statuses (e.g. nonemployment, non-standard employment and standard employment) for employees can be defined and this translates into a nominal, limited dependent variable with the values 0, 1 and 2. Then, in each period the transition probabilities between different labour market states could be modelled.

In a more advanced approach, one could also use (discrete) duration models. In that case, the dependent variable is the duration of occupying a certain labour market status, measured in either days, weeks, months or years, rather than the transition probability. In a well-known specification the duration of the (un)employment spell is modelled by means of the so-called hazard rate, which is comparable to the transition probability. The most important difference between these two groups of models is the choice of the dependent variable.

Finally attention is paid to wage regression models. In these models the dependent variable is the (hourly) wage, possibly transformed logarithmically.

In all of the aforementioned models, unobserved heterogeneity can play a role. This stems from the practical impossibility to measure all relevant characteristics of individuals. However many variables one is able to use, however long the questionnaire, there will always be some heterogeneity left unmeasured or unobserved. Unobserved heterogeneity can be modelled explicitly by assuming that this heterogeneity is distributed over individuals according to some known distribution.

Chapter 3 is the first of 5 empirical chapters. In the third chapter labour market outcomes of individual employees in the Netherlands are described and explained. More specifically it is investigated whether employees in non-standard jobs move to standard jobs, other non-standard jobs or to inactivity/unemployment. Over the last 15 to 25 years, the number of flexible or non-standard jobs has increased substantially in the Netherlands, as in many other European countries. In the Netherlands 1 out of 5 employees had a temporary job and 1 out of every 4/5 employees had a part-time job in 1998. Another 10 per cent of employees worked in a short hours part-time job of less than 12 hours per week. A steadily increasing number of especially young and female workers in the Netherlands have non-standard labour contracts in the 1990s. Two forms of contractual flexibility play an important role: temporary work and part-time work.

The primary goal in this chapter is to investigate which individual, household, institutional and job characteristics have an impact on the transition probability from non-standard to standard employment. The main question to be answered is whether some workers in non-standard contracts have higher transition rates than others. Another question posed is whether we can establish a separate impact of institutional factors on the transition probability, next to the effects of the usual variables in labour economics: work experience, job tenure and other variables indicating the level of human capital, the job search intensity and job characteristics?

From the descriptives it is already clear that substantial numbers (about 25 per cent) of employees make transitions from non-standard into standard employment each year. This means that the Dutch labour

market cannot really be characterised as a 'segmented labour market' in this respect.

The results of the multivariate analyses indicate that workers in non-standard jobs are more likely to move to non-standard jobs as they get older. The relationship with age is inversely U-shaped because after a certain age, they become less likely to make that transition. One could say that if workers are in a temporary job when they are 30 years old, there is no real problem with respect to the prospects for standard permanent employment, but the problem arises when they are in a temporary job when they are 50 years, unless they are already on the track of retirement. A similar effect of age can be found for people currently without a job, but only for transitions to standard employment. Married women in non-standard jobs or in nonemployment are less likely to get a standard job than men. Non-employed divorcees are more likely to find a standard job, but divorced women in nonemployment are less likely to find standard employment. The marital status seems to play an important role for women probably related to the caring obligations women in the Netherlands have in association with their marital status. It seems to be that women with caring duties (and this is picked up by the marriage dummy variable) are less inclined to accept a standard full-time job offer because it also involves an increase in the number of working hours. The flexibility in the number of hours in non-standard jobs might for women also be important to prefer these jobs in particular life course stages above standard jobs. We can however not exclude the possibility that there is some discrimination against women in the Dutch labour market which would lead to the rationing of standard jobs for women.

Older non-standard workers are not only more likely to move into standard employment but also less likely to fall back into nonemployment. At first sight this seems odd given the worse employment position of older workers but it might mirror that non-standard jobs are not only used as a 'stepping stone' into standard employment but also as an exit route into retirement. This effect cannot be found for transitions from non-employment into non-standard employment. There the effect of age is negative and the chances of finding a non-standard job are reduced for older workers.

A puzzling finding is that the level of educational attainment does not seem to affect the transition rates from non-standard jobs into permanent jobs, though they do influence the relative probability of making a transition from nonemployment into employment. Only a higher vocational degree has a positive effect on moving into standard employment from a non-standard job. This could signal the existence of a selection (stigma) or 'scarring' effect of being employed in a non-standard job for workers with either lower or higher secondary education or a university degree. These 'scarring' effects might be the result of the selection processes in employer's hiring policies.

Other household income exerts a negative effect on the transition rate to non-standard employment and a positive effect on the transition rate into standard employment for the non-employed. This holds for both non-labour income as for labour income of other household members. Once employed (in a non-standard job) the effect of other household income (labour or non-labour) becomes insignificant. A tentative conclusion could be that both income sources act as a financial buffer allowing the non-employed jobseekers to 'wait' for a standard job offer, rather than accepting a non-standard job offer.

An important finding is that there is a high degree of path dependence in labour market transitions. Earlier experience in standard employment increases the transition probabilities into standard employment, both for the non-employed and for non-standard workers. Previous experience in either non-standard or standard employment also reduces the probability of 'falling back' into nonemployment. Prior unemployment does not reduce the chances of finding a job for the non-employed but does reduce the chances of finding a standard job for non-standard workers, which could be characterized as an unemployment 'scarring' effect. Prior experience in a non-standard job does not seem to have significant 'scarring' effects with respect to the probability of finding a standard job. It might signal a labour market in which segmentation has less to do with the existence of flexible or non-standard jobs but much more with the inequality across people in terms of the opportunities or chances they have to be employed, to stay employed or to make a career on the labour market. For most workers on non-standard contracts the non-standard job acts, at least in the

Dutch case, as a ‘stepping stone’ into standard employment. Furthermore it is very clear from the analyses in this chapter that employment growth in the second half of the 1990s in the Netherlands has increased the transition probabilities into both non-standard and standard work. This just mirrors the situation that in economic upturn periods employment increases and more workers make transitions from non-standard jobs into standard jobs. A limit of the analysis in chapter 3 is that we had to aggregate over rather different categories of non-standard contracts (small part-time jobs, temporary jobs, jobs with a private employment agency, on-call contracts). The heterogeneity among the non-standard jobs is rather large but the small number of observations does not allow us to disaggregate further. With a larger number of observations and/or more waves of data it will be possible to perform separate analyses for different job types.

The major finding of Chapter 3 is that a lot of workers in non-standard jobs find a standard job relatively quickly. About 25 per cent of workers in non-standard employment make a transition into standard employment the next year. In that respect, the ‘stepping-stone’ hypothesis seems to be confirmed. The determinants of the transition probability are more or less comparable to the determinants that appeared important in other labour economic analyses (e.g. wage regressions), viz. human capital variables (age, education, previous employment experience) household composition variables (marital status, children) and income variables. It seems to indicate that the selection and assignment or sorting of people to standard and non-standard jobs as characterised by the wage level, the number of working hours, the security involved etc. can be explained by the same structural causes as the sorting of wages.

An important econometric finding is that there is no significant added value of specifying a panel multinomial logit model with unobserved heterogeneity for this analysis. Not only are the results in terms of the parameter estimates and the fit of the model in both specifications very similar, a formal test does not reject the simple model specification (without an unobserved heterogeneity term). For this reason in subsequent chapters (in Chapter 4 and 7 in particular) we will use the simpler specification.

For the purpose of labour market policy making in the Netherlands, a number of things can be learned from this chapter. Non-standard employment is not necessarily bad for the workers concerned, the ‘scarring’ effects are limited though they do exist for particular categories of workers. Policies might aim at facilitating the transition into a standard job in order to reduce this scarring effect. One could think of (temporarily) subsidizing employers for hiring their non-standard employees on standard contracts or to facilitate investments in the training of these workers to improve their prospects. Current Dutch labour market policies seem to do neither.

The results in this chapter raise a number of interesting questions. Some issues, which could not be addressed in this chapter, deserve thorough research. The role of self-employment (or having multiple jobs) in these transition patterns in the Netherlands is not investigated here but is an interesting area. Also the econometric specification of this type of transition models deserves closer scrutiny. In particular more specifications of a panel multinomial logit models need to be explored. But most importantly, we should investigate the impact of institutional factors and especially the role of the welfare state and in particular labour market institutions on these labour market transitions in an international comparative context.

This is exactly what has been done in **Chapter 4**. Again, it was hypothesized that non-standard jobs can act as a stepping stone towards standard employment and are therefore potentially helpful in reducing unemployment.

For that to be true we must at least be able to observe substantial numbers of transitions to standard employment from non-standard employment. This was already established for the Netherlands in Chapter 3. But also in Germany and Great-Britain the yearly transition rates into standard employment were sufficiently large to employ the kind of analyses we aim at. The main topic in this chapter deals with the question to what extent the transition patterns differ across the three countries and what the role of institutional differences across the three European labour markets: Netherlands, Germany and Great-Britain can be. The small number of countries does not allow us to test the role of

institutional differences formally but if we find differences in transition patterns and different determinants this might point to differences in the way institutions impact on these transition patterns. We deal with questions as to whether non-standard jobs in all three countries are indeed stepping-stones to standard employment or are they dead-end jobs without much prospect for improvement of the labour market position? What are the individual, household and job characteristics that play a role in the transition rate to standard employment? Can difference in the transition patterns between comparable employees in the different countries be explained by differences in employment protection legislation and social security institutions? These four questions take centre stage in this chapter. An overview is given of the relevant (changes in) employment legislation, social security and income tax institutions in the three countries. From it we learn that these institutions differ significantly in the three countries in our research period.

Looking at the descriptive statistics we find that the transition rates to standard employment are fairly similar for the Netherlands and Germany at around 25 per cent per year for employees on non-standard contracts. For Great-Britain this percentage is somewhat higher, especially in the economic boom of the late 1990's. This is an indication that the less regulated labour market in Great-Britain enables a higher transition rate at the aggregate level, at least in an economic boom. Furthermore, it is consistent with the notion that a more liberal, AngloSaxon labour market regime will result in a more dynamic labour market.

With the multivariate analyses we confirm most of the findings for the Netherlands in the preceding chapter. Age plays an important role in the transition rate from non-standard to standard employment, also in Germany and Great-Britain. The conclusion must be that for most people in all three countries, non-standard employment is 'a phase they're going through'. Looking only at the dependent variable, the yearly transition probabilities and the determinants, all in all we find that the similarities between the three countries are larger than the differences even after controlling for a number of compositional dissimilarities across the countries. A tentative conclusion might be

that the macro-level institutions, however great the differences between countries are, play a much less important role than the structural factors such as human capital factors or the socio-economic conditions on the labour market for explaining the individual transition probabilities in this dissertation.

Somewhat puzzling are the effects we found for educational attainment variables for workers in non-standard employment. The negative effect of a higher education level on the transition rate to standard employment in Germany stands out as being contrary to our prior expectations. But also for the Netherlands and Great-Britain, we find the hypothesis not confirmed that higher levels of educational attainment will (*ceteris paribus*) lead to higher transition probabilities from non-standard to standard employment. A possible explanation might be a 'selection' effect due to the job search behaviour of the higher educated people: they prefer to wait until a standard job arrives and choose to stay unemployed rather than to start working in a non-standard job. Those who have started to work in a non-standard job could therefore be a select group of higher educated workers who preferred such a job for other reasons. One reason might be that they start working in non-standard jobs if there are very good prospects to acquire a permanent job. It might also be that part of the higher educated prefer to stay in the non-standard job they are occupying because it allows them to combine work and other activities better (e.g. caring or training) which might hold for women in particular. The finding that for workers currently in non-employment, higher educational attainment does result in higher transition rates into (either non-standard or standard) employment might point to this selection effect. In all three countries, a low level of one's labour supply (in terms of working hours per week) seems to reduce the prospects of moving into a standard job. If this low labour supply is due to leisure/homework preferences than this is a fairly logical result, but when having a short hours part-time job is due to rationing of other, more substantial jobs, then again this points to a 'scarring' effect. Though our reduced form approach does not allow us to separate supply factors (e.g. preferences) from demand factors (rationing) we might investigate this matter in more detail when we focus the analyses on transitions in part-time jobs as we do in Chapter 7.

The effect of previous labour market experience in non-standard employment on labour market transitions could be regarded as the 'long-term' effect of non-standard employment for individual employees. It could signal a 'scarring' effect if experiences of unemployment or working in non-standard jobs would have an adverse effect on the transition into a standard job. In general we find that it does increase the chances of finding standard employment for those currently not employed. But for non-standard workers we found a positive effect on the transition into a standard job in Germany, a negative effect in the Netherlands and no effect in Great-Britain. One interpretation could be that there is a scarring effect of non-standard employment in the Netherlands but not in Great Britain and Germany. For Germany it might point to the positive effects of the vocational training or apprenticeship system that is quite unique for Germany. For Great Britain it might signal the larger flexibility in the less regulated British labour market causing the transition rates between jobs to be larger and hence also the transition rate from non-standard into standard jobs.

We also included a specific institutional variable to measure one important institutional feature indicating the generosity of the social security benefit system in a more direct way. The gross replacement rate of the unemployment benefit, showed to have some effect in Germany. Higher levels of the replacement rate led to higher transition rates to standard employment. This could indicate that the degree of decommodification in (or generosity of) the unemployment benefits do not inhibit the transition to standard employment. From a policy perspective, this is an interesting result.

Chapter 5 deals with the wage mobility consequences of accepting non-standard jobs. There is overwhelming consensus amongst labour economists that employees in non-standard employment ('flexworkers') have lower wages than their colleagues in standard jobs. But the theoretical underpinning of these wages differentials differs. Do non-standard jobs belong to a separate, secondary segment of the labour market? Are workers in non-standard employment less productive?

From a compensating differentials perspective one would even expect that temporary workers would be paid more than permanent workers, in order to compensate for their lack of job security. This ‘compensating differentials’ approach can be confronted with a ‘segmented labour market’ approach in which one would expect lower wages for temporary work. To further complicate matters, ‘implicit contract theory’ can be used to analyse the wages in non-standard employment in a working life perspective. Then, lower wages for non-standard jobs, can be explained from the fact that these occur predominantly in the early stages of a working career. This chapter does not provide a final answer to which theory is more appropriate. But its results do confirm that non-standard jobs have lower hourly wages, when taking individual differences between workers and selection mechanisms into account. Furthermore we found that these lower hourly wages also reduce hourly wages later on in the career pointing to a long-term scarring effect. Combined with the negative ‘scarring’ effect of previous experience in non-standard jobs on present hourly wages, this leads to the conclusion that non-standard jobs are ‘bad’ jobs in the sense that they have lower wages and also reduce future income prospects. But compared to people remaining in unemployment, these workers have better prospects to find a permanent job. This is beneficial for one’s wage prospects and will thus result with smaller ‘scarring’ effects in terms of lower wages. Eventually they might be better off if the transition to standard employment does not take too long. Non-standard jobs may be ‘bad’ jobs in terms of wages, but could lead to better’ employment options for the future.

Again, we found no major differences between the determinants of wages in the three different countries. Wage formation, however different it is in the three countries, does lead to fairly similar determinants on the level of the individual employee. This is again an indication that structural factors are more important than the institutional factors. However, as indicated before, it cannot be ruled out that these institutional factors affect the transition patterns and indirectly, wage formation also.

Temporary jobs come with lower hourly wages and short hours part-time jobs with higher wages in all three countries. No compensating differentials mechanism seems to be in place for temporary work. In all three countries, temporary work belongs to a secondary segment in this aspect. The higher wages for short-hours part-time jobs can be explained by the progressiveness of the tax-system, but we could not exclude the possibility that this is due to measurement error.

So what can we learn for policies from the results in this chapter? Again we establish some sort of scarring of non-standard employment, both directly (non-standard employment comes with lower hourly wages) and in the longer term (previous experience in non-standard employment also leads to lower hourly wages in subsequent employment). Compared to permanent jobs they seem to be 'bad' jobs but compared to staying unemployed they render better options for employment and wage careers in the future. We also saw that the scarring effects are smaller in Germany and Great Britain for different reasons. In Germany the apprenticeship system is important in assuring that the transition into standard jobs is improved and in Great Britain the flexibility allowed to employers seems to assure a higher transition rate into permanent employment. In normative terms, labour market policies should allow for flexibility but at the same time safeguard employment security by promoting the transition into standard jobs. This might be achieved by stimulating investments in education and training of non-standard workers.

In **Chapter 6** we elaborate on the notion that workers with a flexible, temporary contract have an inherently larger probability of unemployment than permanent workers. On the other hand they also have a lower probability of unemployment in the longer term compared to the unemployed. To investigate the issue further we compare the duration of unemployment spells of former temporary workers and former permanent workers. The issue is also relevant from a policy perspective because a larger amount of flexibility in the form of more temporary jobs (or less regulation in the hiring and firing of workers in general) is expected to raise employment levels and to lower the length of unemployment spells. As a result of such policies, employers would supposedly be less reluctant to employ workers. The

growth in the number of temporary jobs, especially in the Netherlands and Germany, might be seen as the result of the trend to labour market flexibilisation. The increase in the number of temporary jobs is an example of this flexibilisation trend, but at the same time contributes to higher levels of uncertainty (higher unemployment probability) for the workers involved. This level of uncertainty is potentially higher in countries with more strict employment protection regulations, such as in Germany and lower in less regulated countries such as in Great Britain.

Permanent jobs offer more security in countries with a high level of employment protection legislation (EPL) than in countries with lower levels of EPL. On the other hand, temporary jobs offer less security in high EPL countries with a segmented labour market protecting the insiders than in low EPL countries. Therefore the job security of permanent jobs must be weighted against the lack of job security of temporary jobs. In Great Britain the job security of permanent workers is lower and the employment security of temporary workers presumably higher due to a higher transition rate into permanent jobs. In Germany the job security in permanent jobs is higher but the employment security of temporary jobs lower due to a lower transition rate into permanent jobs. (compare Figure 4-1 and 4-2 in Chapter 4)

Spells of unemployment start when workers are laid off, made redundant, or when their temporary contract ends. Because temporary employees have an inherently higher probability to become unemployed and because temporary employment is such a widespread phenomenon in many countries, it is interesting to see whether the duration of unemployment spells differs between former temporary employees and former permanent employees. We hypothesize that the unemployment spells for former temporary workers are shorter than those for former permanent workers. When this is not the case, temporary workers do face more and equally long unemployment spells than workers who had a permanent job and became unemployed. In policy terms this would signal the impaired chances of temporary workers for an employment career and would imply that promoting temporary employment might instead lead to higher unemployment

particularly in a recession. If this turns out to be true it would again point to a scarring effect of working in temporary jobs.

The preliminary conclusion in this chapter, based on descriptive statistics about unemployment spell durations is that the average unemployment spell for former temporary workers is indeed shorter than that for former permanent workers who became unemployed. At first glance temporary jobs indeed seem to contribute to improve future employment chances.

But when we further analyse this in a multivariate context, it turns out that this difference does not stand. In a multivariate duration analysis, the effect of temporary work directly prior to unemployment is insignificant for both men and women in Great-Britain and it has a negative effect on the chance to escape unemployment for German men. In the long term, temporary employment does not increase the outflow out of unemployment either, for men and women in Great Britain and Germany. One could argue that this is due to a selection effect because temporary workers not moving into permanent employment are a selective group of workers with 'worse' prospects compared to temporary workers who moved into a permanent job. But for that reason, we tried to control for a rather large number of influencing factors such as personal and household characteristics and human capital endowments. So this selection mechanism is expected to be of minor importance though it cannot be ruled out entirely. The results certainly echo a warning against too much optimism about the positive effects of promoting temporary employment as a means to reduce unemployment.

In **Chapter 7**, the focus is on part-time work and the role of institutions and preferences on transitions from part-time work into full-time work or into other employment statuses. From descriptive statistics we can learn that part-time work is much more widespread in the Netherlands and to a lesser extent in Great Britain than in Germany. In the Netherlands, the share of part-time work for women but also for men is the highest in Europe because of which it is called the first part-time economy in the world. We expect that in a country where full-time work is the norm for men and women (such as in Great

Britain) we will see different effects on the transition patterns between part-time and full-time work than in a country where or where part-time work is the norm for women and full-time work for men (e.g. in the Netherlands). Germany will be somewhere in between; it can be characterized as a ‘breadwinner’ welfare state where less women work part-time and more women do not work at all, but where full-time work is the norm for men. We contend that dependent on the classification into some employment regime type, preferences for working part-time differ across countries and that these differences in preferences will affect the transition rates into full-time work.

For that reason we include in our transition models the stated preferences about the preferred number of hours per week to gain more insight into these working time transition patterns in the three countries. We also contend that the large heterogeneity involved in part-time jobs, also associated with the number of hours part-timers work per week, is related to these differences in preferences for working times among women and that this will have an impact on the transition probabilities. The more part-time work differs from the standard full-time job the more it might also have a ‘scarring effect’ on the future employment and wage careers of those who it concerns.

The results in this chapter suggest that female part-time workers in the Netherlands are more likely to end up in their preferred hours bracket. It shows that in a country where the norm is to work part-time for women, women are better able to realise their preferences though it might take some time. Male Dutch workers still tend to work full-time but when they work in part-time jobs; their preferences seem not to play a significant role. This suggests that for men, working in a part-time job acts as the second-best option whereas for women a part-time job is often a preferred option they try to attain in the short or longer term.

In Great-Britain we find similar outcomes for women when it comes to their preferences for either working less or more hours. Just as in the Netherlands, female British workers tend to be able to realize their working hours preferences and are more likely to make transitions into full-time work when they want to work more hours and to move into

non-participation and short hours part-time work when they want to work less hours. But also men who want to work more hours seem capable of realising their changed working time preferences. The British labour market seems just as the Dutch labour market sufficiently flexible to honour the working time preferences of women by offering them the options that allow them to work more or less hours. But the British labour market even outperforms the Dutch one since contrary to Dutch men, British men indeed do succeed in realizing their preference for working more hours. The preferences of men to work less hours play in both countries no important role indicating again that for men part-time jobs are either a preferred option or a stepping stone into full-time jobs.

Both, German men and women in part-time employment are less likely to realize their preferences for working fewer hours. This could be an indication of inflexibility of the German internal labour market and the incapacity to provide for short hours part-time jobs. Employers tend to offer full-time jobs instead of part-time jobs. On the other hand, if men or women want to work more hours the labour market is able to offer them full-time jobs. It seems that even more so than in Great Britain the norm in Germany is to work full-time or nearly full-time certainly for men but also for women. For women the norm seems to be that they do not work at all, but when they work they work at least long hours part-time. This fits perfectly in the 'breadwinner' oriented corporatist features of the German labour market that favours fulltime employment, especially for breadwinners.

For the employment history variables, signalling the path dependency in individual labour market experiences, we observe marked differences in the size and direction of the effects between the countries. But overall the labourmarket history variables seem to exert significant effects in all three countries. The current labour market prospects people have, seem to be dependent on previous employment statuses. The more past history concerns permanent full-time jobs the better the position of the person involved is; the more the experience concerns unemployment or employment in non-standard jobs the less favourable the future position tend to be signalling the 'scarring' effects of unemployment and temporary jobs. In Germany previous

unemployment and/or non-standard employment exert stronger scarring effects than in the two other countries. This could be attributed to the focus on full time employment that is so prevalent in the German labour market. From the results for Great Britain and the Netherlands we can learn that even though they have quite different labour market institutions, the results show that the labour market transitions patterns in these countries are fairly similar with respect to the effects of employment history variables and scarring effects of unemployment.

If we combine these results with the ones found for the preference variables it can be concluded that Great Britain and the Netherlands appear more successful in facilitating individual labour market transitions than Germany. German labour market policies are likely too much centered on full-time employment, at least in this observation period. The 'employment focused' orientation in the Dutch labour market is more geared towards part-time and non-standard forms of employment which could be an alternative way to attain a fairly flexible labour market that can even compete with the less regulated British labour market. This could also explain the relative success of the Dutch and British labour markets in terms of their favourable macroeconomic outcomes during the late 1990s when most European countries faced an economic upturn period.

To conclude

The research in this dissertation contributes to empirical labour economics research in three ways. Firstly it has investigated individual job mobility patterns for employed and unemployed workers for over a decade with the use of panel data in three European labour markets that are rather distinct in terms of their labour market institutions and regulations. It shows that short spells of unemployment or non-standard, flexible employment are not necessarily detrimental or 'scarring' to workers' future careers. Only few people are really trapped in disadvantageous positions and most appear to be able to escape and to improve one's position over time. In particular, we have observed a fair amount of mobility or transitions from non-standard jobs into standard employment.

Non-standard jobs turn out to be ‘bad’ in the sense that they pay lower wages and reduce future earnings. Therefore it is important that labour market policies in different European countries are geared towards enabling and promoting labour market transitions, in particular transitions into standard employment.

This does not mean that permanent, full-time employment should be considered to be the most preferable socio-economic status. Depending on individual preferences and circumstances, some workers would prefer temporary or part-time employment. But in most countries the notion that permanent full-time employment is something everybody should strive for, is at least implicit in labour market policies. Irrespective of one’s stance in this debate, it is important to gain insight in individual labour market transition patterns and its effects on the future career. One of the contributions of the research in this dissertation is the examination of these effects, in particular whether they are disadvantageous (‘scarring’) or not. Associated with these differential effects are theories about non-standard employment being a ‘dead-end’ in a career or theories about non-standard jobs being ‘stepping stones’ into standard jobs.

The second contribution stems from a careful analysis of the determinants of labour market transition patterns, including the determinants related to effects of labour market institutions such as the unemployment benefit system. We included the unemployment benefit system replacement rate as a potential determinant. Furthermore we investigated the effects of personal and household characteristics, human capital endowments and past working experiences on mobility patterns. We also investigated the role of preferences with respect to working time transitions. All these factors were derived from the rich economic literature on the subject. Most of the predictions we have formulated at the start were confirmed except for the impact of the human capital variables, in particular educational attainment, on the transition from non-standard employment into a standard employment. We concluded that a ‘selection’ effect might account for the reverse effect of high education. High educated workers tend to wait for a permanent job rather than to accept a non-standard job but when they enter such jobs it is either because it better fulfils their preferences or

that they are somehow not able to find a permanent job. In both cases this will result in a lower transition rate to standard employment. We also found strong evidence for the occurrence of path dependency effects mirroring the ‘scarring’ effects of unemployment and non-standard work experience.

With respect to the specific institutional variables two problems have occurred: firstly it appeared difficult to operationalise and measure institutions at the level of the individual worker in order to incorporate them into quantitative micro econometric analyses. Because the number of countries was only three we could not formally test the impact of the institutional set-up on the observed mobility patterns. Therefore, we needed to use a more qualitative approach applying plausibility reasoning to interpret the (different) outcomes for the three countries with respect to the institutional features of the different systems in mind. Secondly, the variation in institutions within countries is often limited, even for long time periods. Institutions change only slowly. That means that though we did not examine in a very detailed manner at the country level the changes in institutions and their effects on transition patterns over time, even if we had done it, we might have had little to work with in terms of variability, even at the country level. This aspect of the analyses is surely a candidate for further scrutiny in future research.

That brings us to the third contribution of this dissertation: the international comparison. This enabled us to study a wider variation in institutions because the institutional set-up seemed to be rather different in the three countries. In the chapters (4, 5, 6 en 7) in which countries are compared, the results of the analyses were slightly contradicting to what we expected since the institutional differences did not seem to exert a clear impact on the individual transition patterns in the sense that structural differences or causes (e.g. gender and human capital endowments) seem to be more important than institutional ones. Given that we could not apply a formal test, we cannot conclude that institutions do not matter; for that we need comparative research using information on a larger number of countries or institutions such as in the SILC (Statistics on Income and Living Conditions) dataset covering 25 countries of the EU. Other

research in which the role of specific institutions is investigated in more detail has shown that institutional changes do seem to exert a significant impact on the transition patterns on the labour market.

The policy relevance of this dissertation is twofold. On the one hand labour market policy could actively promote flexible labour and on the other hand it also could act in response to autonomous developments in the labour market.

With respect to policies that actively promote flexible labour, the research in this dissertation shows that unlimited flexibilisation in the form of promoting more non-standard jobs will not necessary lead to better labour market outcomes. Having said that, the research also shows that it is likely that a well developed non-standard employment segment in the labour market will improve the labour market prospects for the unemployed. Such a policy would be a logical implication of adopting the 'stepping stone' theory, for which some proof can be found this dissertation.

On the other hand, policies might focus on regulating non-standard jobs to such extent that non-standard jobs in terms of wages, employment security, and work content are becoming more similar to standard jobs. Such a policy would be in accordance with the 'dead-end' or 'scarring' thesis and would be aimed at reducing the 'dead-end' effect and the 'scarring' by improving the quality of non-standard jobs. This is an example of a policy that considers non-standard jobs as the result of autonomous exogenous developments (firm behaviour) on the labour market to which policies should adapt itself to ensure the best possible outcomes.

The findings in the thesis show that neither the 'stepping stone' nor the 'dead-end' thesis tells the whole story. Both are true in a sense but which thesis is more relevant depends, among other things, on the institutional context. Strictly regulated labour markets with policies protecting the insiders seem to perform worse in terms of getting workers in non-standard jobs into permanent standard jobs. More 'flexible' less regulated labour markets perform better in getting these people into permanent jobs but without being able to prevent 'scarring'

effects in terms of wages and future employment careers to occur. Both types of institutional set-ups seem to pay a price, either a high yearly mobility rate into standard jobs is attained but with loss of wages and employment security over time, or a lower yearly mobility into permanent jobs is accepted but with a better employment security in the longer term. What is to be preferred depends on the balance between flexibility and security that a labour market policy wants to achieve.

The three countries under investigation in this dissertation, all faced quite different developments on their respective labour markets in the 1990's. The Netherlands was confronted with a rapidly increasing number of non-standard (temporary and part-time) jobs, combined with a strong reduction in unemployment. Great Britain had a relatively stable number of non-standard jobs and also reduced unemployment whereas Germany had a considerable increase in the number of non-standard jobs but appeared markedly less successful in reducing unemployment in this period. Furthermore, when we look at the individual labour market outcomes in the three countries it is far from certain that higher numbers of non-standard jobs will have a positive impact on the performance of the labour market in the long run.

The findings of the thesis show that countries in terms of policies seem to react very differently to the changes in the economic context and the international developments in this period that might be held responsible for the rise in non-standard contracts. The Netherlands tried to regulate the conditions under which people work in non-standard jobs with the Flexibility and Security Act (Wet Flexibiliteit en Zekerheid) that took effect in 1999. It was an attempt to provide a balanced answer to the need for labour flexibility of employers and the need for employment security of employees. In the less regulated British labour market there is also less call for regulations concerning non-standard employment, due to the liberal policy tradition they embrace. In addition, the number of non-standard jobs in Great Britain has not changed considerably. Great Britain achieve flexibility already in the segment of permanent jobs which render much more flexibility to employers, compared to The Netherlands and Germany. But the flexible, less regulated British labour market also ensures that many

workers are assured of employment security, not job security, because of the larger mobility or turnover. Germany had the most worries of the three countries, at least in the 1990's. It had a sizable growth in the number of temporary jobs, but at the same time the unemployment level rose strongly. The response of the German government (end of the 1990's, Chancellor Schröder) consisted of an attempt to increase the level of flexibility and to reduce the level of regulation on the labour market.

Great-Britain should worry about the limited access to job-related training and schooling that is almost exclusively offered to permanent staff. This will endanger the longer-term position of workers in non-standard jobs and will add to the scarring effects these workers already have to face in terms of wages and employment careers. It also enforces the inequality and stratification between the various contract types and will eventually weaken the performance of the labour market. For the Netherlands, the policy to combine flexibility and security might be a successful road because it seems supported by all parties involved and the labour market outcomes are favourable. The level of regulation is at the intermediate level and seems not to inhibit the proper functioning of the labour market. The advocates of liberalisation of the employment protection regulations might be overstating the positive effects which they foresee in terms of the growth in permanent employment but the advocates of more protection might not close their eyes for the positive effects of increased flexibility levels also in terms of the opportunities and prospects it offers to particular groups of workers. Further research should be conducted to learn more about the transition probabilities into permanent employment for temporary jobs that the government had created under the heading of active labour market policies (Melkert jobs, ID jobs, job pool) to permanent jobs. The plans of the German government (also under Chancellor Merkel) for further flexibilisation of the German labour market are risky. The German economy is still characterized by a relatively high share of manufacturing firms. This will result in another need for flexibility, possible even at a lower level than in the Netherlands or Great-Britain. Rather the German government should aim for improving the quality of the existing flexible jobs and point out the transition perspective in these jobs to

encourage the inactive in the German labour market to accept these jobs. The German government might also aim at further raising the transition probabilities into permanent jobs through the apprenticeship system which seems to warrant improved employment and wage prospects for the young job seeker.

The study and analyses in this dissertation raise a number of new research questions. Surely, it provides insights into the determinants of labour market transitions on different European labour markets. But the emphasis was mainly on transitions into permanent fulltime employment. In some chapters references were made to transitions into non-employment, but this issue could have been explored in further detail. These transitions are equally relevant for labour market policy, especially for policies concerning the increasing number of older workers and (early) retirement.

In this dissertation we used several more or less advanced econometric techniques. We encountered several problems in trying to use these for estimating our models of interest, and not all of these problems have been solved entirely. These problems refer among other things to the estimation of a panel multinomial logit model and the careful incorporation of a double selection mechanism in a wage regression model. These econometric issues deserve even more consideration in further research.

Institutions of social security, employment protection legislation and tax systems obviously play an important role in the transition patterns described in this dissertation. The operationalisation and measurement of these institutions is a study in itself. For example, the collection/construction of replacement ratios for different benefits, household types, countries and years is a time consuming enterprise. This dissertation benefited from work by the OECD in this field, but there is still a lot to be done. Furthermore, more research is needed into differences between national tax regimes. Simply using gross and net wages is not sufficient to capture the institutional differences between countries.

All in all I am convinced that the topic of this dissertation and the type of analyses used in this dissertation can be the starting point for an extensive research programme that could occupy labour economists for many more years. A research programme above all that does justice to the complexity of the labour market and the behaviour of its workers.