W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

Employment Research Newsletter

Volume 9 | Number 2 Article 3

4-1-2002

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Catalina Amuedo-Dorantes
San Diego State University

Ricardo Serrano-Padial

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Citation

Amuedo-Dorantes, Catalina, and Ricardo Serrano-Padial. 2002. "Can Temporary Employment Scar Your Future Earnings? Wage Mobility by Type of Work Contract in Spain." Employment Research 9(2): 6.
https://doi.org/10.17848/1075-8445.9(2)-3

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W.E. Upjohn Institute for Employment Research
Employment Research - July 2002
• Mini-Grant Funded Research •
Catalina Amuedo-Dorantes and Ricardo Serrano-Padial

Can Temporary Employment Scar Your Future Earnings? Wage Mobility by Type of Work Contract in Spain

The 1990s have been characterized by the rapid growth of nonstandard work arrangements, particularly in Spain, where temporary workers have accounted for more than one-third of the workforce over the past decade. It is difficult to generalize because temporary workers are heterogeneous, but concern arises that they are the most likely to incur fewer opportunities for career advancement and to receive lower wages. Less opportunity for advancement may inflict long-term harm due to lack of access to better jobs and higher earnings, while low wages contribute to poverty.

Using Spanish data from the European Community Household Panel (ECHP), we have examined the effects of temporary work of different durations on current and future wages while accounting for the worker's recent job mobility and job search patterns. We find that while temporary workers earn approximately 5 percent less at a given point in time than permanent workers, they experience greater wage growth than their permanent counterparts in the short run. In particular, temporary workers' wages are 6 percent higher than those of their permanent counterparts a year later, once we account for recent job mobility and job search patterns.

Various factors might explain this finding. Temporary workers' greater wage growth might represent the payoff to their greater effort in order to keep their jobs or a compensating wage differential for worse working conditions. Alternatively, in an environment of high unemployment, a permanent worker may suffer a substantial wage penalty when switching jobs if employers perceive of them as "damaged goods," whereas job changing among temporary workers is not extraordinary.

We also find that the wage gaps between temporary and permanent workers and the wage growth experienced by temporary workers vary substantially with the duration of the temporary work contract. In particular, relative to permanent workers and accounting for recent job mobility and job search practices, temporary workers with up to six-month contracts earn approximately 5 percent less than their temporary counterparts. Interestingly, their wage gap widens to 11 percent a year later, possibly due to the interrupted employment patterns typically associated with this short-term work category.

On the other hand, longer-term temporary workers (e.g., those with one-year contracts or one-year or more contracts) might experience a wage gap in some instances (such as in the case of work contracts lasting more than six months and up to one year), but they also enjoy greater wage growth than their permanent counterparts. As a result, their wages are 4–6 percent higher than those of similar permanent co-workers a year later. This finding emphasizes the different nature of short-term and long-term temporary employment, with long-term temporary contracts displaying better future employment prospects and thus possibly inducing greater employee work effort.

In sum, our results indicate that while temporary workers earn significantly less than their counterparts, their earnings quickly improve. Within the period of one year, only employees holding short, six-month contracts continue to earn significantly less, while employees holding longer-lived temporary work contracts experience greater wage growth than their permanent counterparts. This finding has important policy implications, since policies targeting the poverty consequences of temporary employment might differ depending on the duration of such effects.

Given the high percentage of workers employed in temporary work arrangements, the reliance of welfare-to-work programs on these work contracts to alleviate poverty, and the observed poverty recidivism among welfare leavers employed in temporary jobs in a variety of countries, these findings provide important policy lessons for the regulation and use of the shortest-lived temporary work contracts.

Catalina Amuedo-Dorantes is an assistant professor in the Economics Department of San Diego State University. Ricardo Serrano-Padial is a graduate research assistant in economics and will be a Ph.D. candidate at the University of California, San Diego, next year.

The Upjohn Institute provides small amounts of funding (mini-grants) that are intended to facilitate the research and publications of nontenured faculty. This article reports the work done with one such grant.