

Wage Growth Implications of Fixed-Term Employment: An Analysis by Contract Duration and Job Mobility[☆]

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Abstract

Focusing on Spain, where fixed-term workers account for a third of the wage and salary workforce, we examine the wage growth implications of fixed-term employment of varying duration while distinguishing between wage growth occurring on-the-job versus via job mobility. Wage growth among employees with indefinite work contracts largely occurs via job mobility, whereas fixed-term workers gain via job mobility as well as on-the-job. Consequently, job stayers with fixed-term contracts a year ago narrow their wage gap with respect to similar counterparts with indefinite-term contracts. Yet, this effect is solely driven by the 10.5 percentage points higher wage growth experienced by fixed-term workers with 6-months contracts able to keep their jobs beyond their initial contract period. Given the limited number of short-term temporary workers in those circumstances, the overall wage gap between past fixed-term and indefinite-term workers is unlikely to vanish in the near future.

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1. Introduction

The 1990s were characterized by the rapid growth of non-standard work arrangements as the result of both an increased demand on the part of employers and an increased supply of workers who prefer such arrangements. Spain, in particular, constitutes a unique case with more than one third of its total salaried employment in non-standard work arrangements during the past decade (Toharia et al., 2001; Dolado et al., 2002). The vast majority of these workers were fixed-term workers holding jobs lacking an explicit or implicit contract for long-term employment.

Fixed-term jobs may have served as a stepping-stone to better paid jobs, as in the case of school-to-work and welfare-to-work transitions, or may have provided workers with a second household income (e.g. Bugarin, 1998). Nonetheless, workers in fixed-term work arrangements often endure lower job stability and wages than employees in regular, full-time indefinite jobs (Handler, 1995; Peck and Theodore, 2000). Although some of the lower wages might be due to their generally lower educational attainment and experience, a series of studies have shown that a wage differential among the various types of work contracts remains even after controlling for these workers' characteristics (e.g. Jimeno and Toharia (1993) and Bentolila and Dolado (1994) for the Spanish case). The limited job stability and opportunities for advancement characteristic of fixed-term work arrangements may harm workers through their inability to be promoted to or to access higher paying jobs in the near future, thus, affecting their future wage potential.

Consequently, although it may be counterproductive to limit these types of jobs given the existing demand by firms and voluntary supply by some employees, we need to be aware of the implications of fixed-term work arrangements. While previous work has provided evidence of the contemporaneously lower wages earned by fixed-term workers, no studies have yet examined the impact that the duration of fixed-term employment may have on the employee's future wages due to the lack of appropriate longitudinal data on both wages and the duration of the fixed-term contract. Furthermore, the existing literature has not distinguished between wage growth occurring on-the-job when the fixed-term contract is used as a screening device versus wage growth taking place via job-to-job mobility –of special interest given the short-life of fixed-term contracts. Therefore, we pose the following questions: How does the wage growth experienced by workers who have previously held a fixed-term contract compare to that of their counterparts with open-ended (or indefinite) contracts? Does wage growth differ according to the duration of the fixed-term contract held by the employee? How much of this wage growth occurs on-the-job versus via voluntary job mobility?

This paper addresses the aforementioned questions with an analysis of the wage growth implications of fixed-term employment of varying duration, while distinguishing between wage growth occurring on-the-job versus via voluntary job mobility. The analysis uses Spanish data from the 1995 through 2001 waves of the European Community Household Panel (ECHP), a unique longitudinal survey containing wage and contract information for the Spanish workforce. In addition to information on the respondent's previous job mobility, the analysis controls for their personal human capital and job-related characteristics possibly affecting any lasting effects of fixed-term employment on wages.

Several findings are worth summarizing. First, wage growth among indefinite workers primarily occurs via job mobility. This is to be expected as workers with indefinite-term contracts would not leave the security of their jobs unless a significantly better job opportunity were to come along their way. In contrast, fixed-term employees experience wage gains via job mobility as well as on-the-job. As a result, the wage growth experienced by job stayers with fixed-term contracts a year ago is 4 percentage points higher than the wage growth enjoyed by similar

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