

# Employer behaviour, etc.

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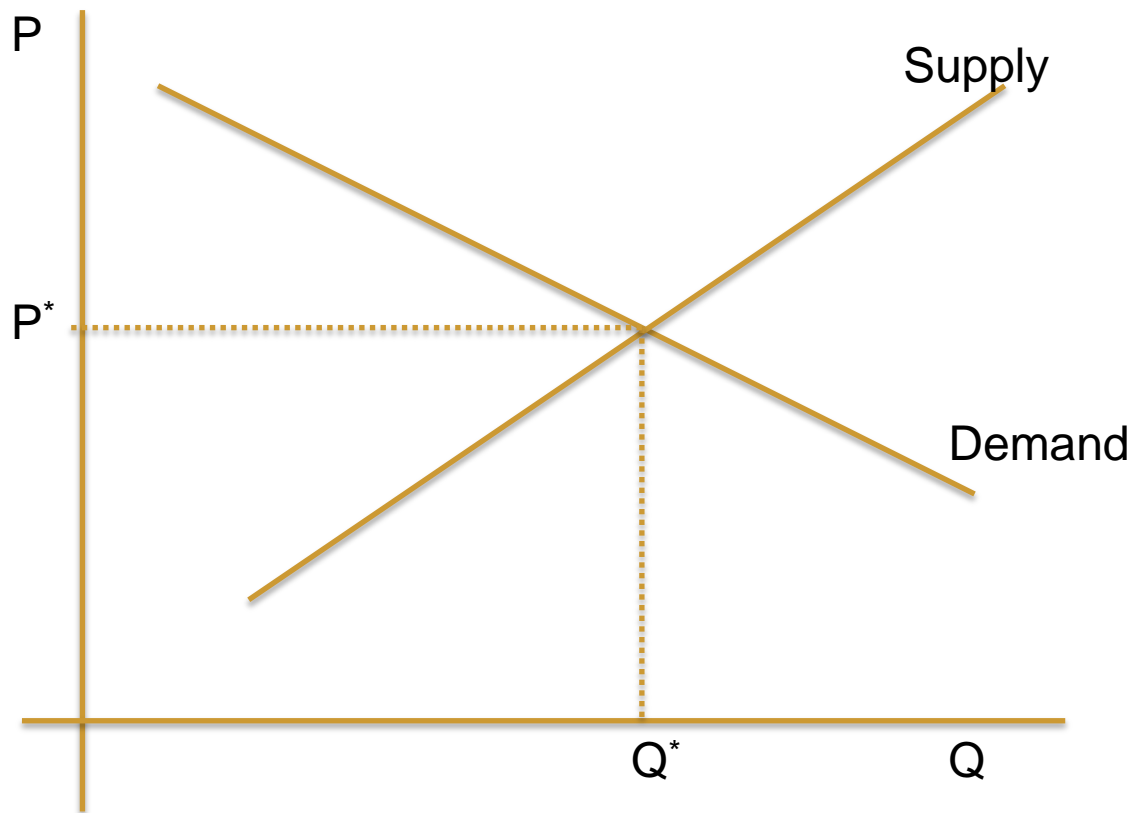
# Intro

- Ronald Dekker
- Labour economist
  - Econometrics: Erasmus University, Rotterdam
  - Labour economics, labour market policy: Tilburg University (1997-2003 & 2009-now)
  - Labour market and innovation: TU Delft (2001-2009)
- Currently research into:
  - Labour market dynamics
  - Flexibility and security on the labour market, employment security
  - Self-employment, 'spurious' self-employment
  - 'Lower end' of the labour market, inclusive labour markets

# My contribution today: largely theoretical/conceptual

- The labour market
  - Employer behaviour
  - Employability in a flexible labour market
  - Inclusion in a flexible labour market
  - Policy options: nudge employers to social responsibility
  - Towards a research agenda with relevance for policy
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- Questions/remarks along the way: please don't hesitate to interrupt!

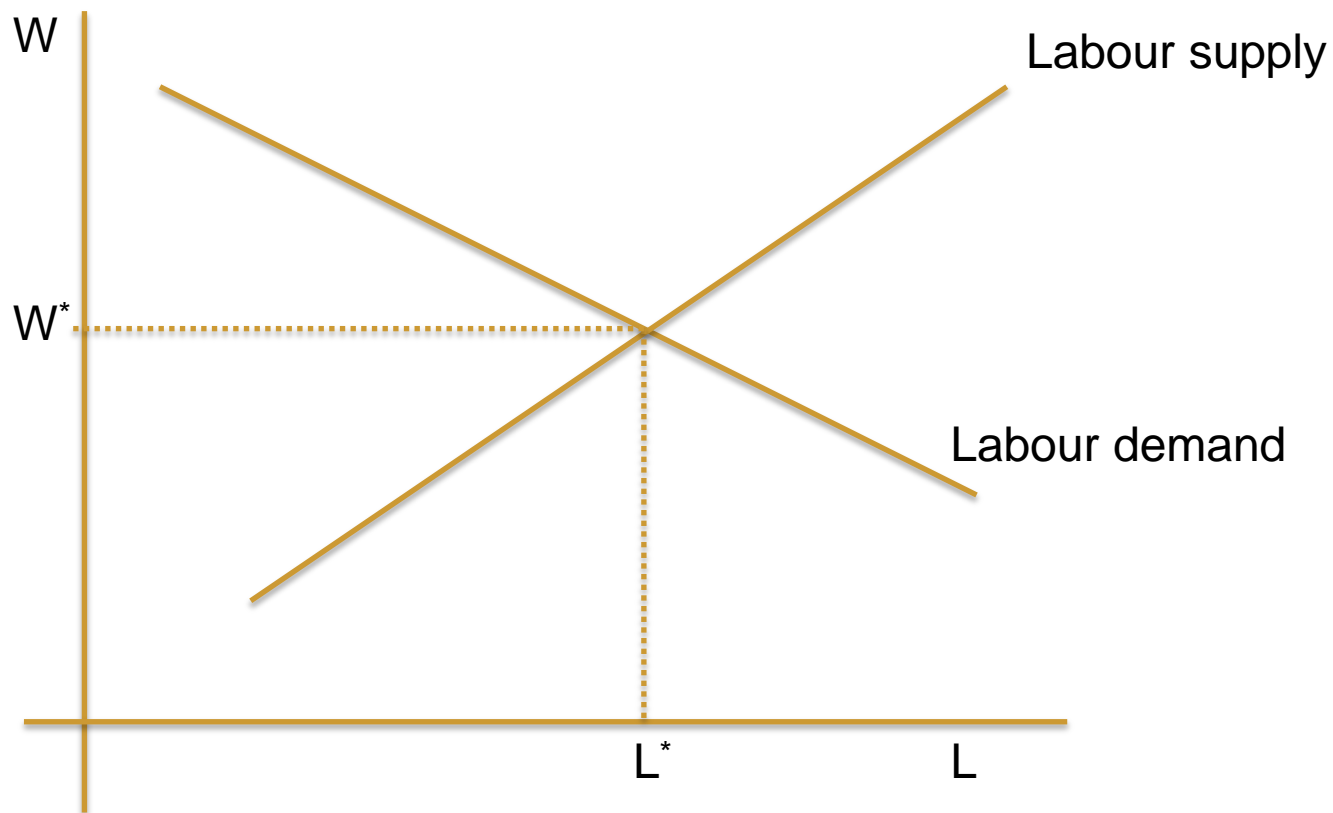
# The market ('Economics 101')



# Prerequisites for 'perfect competition'

- **Infinite number of buyers and sellers**
- **Zero entry and exit barriers**
- **Perfect factor mobility**
- **Perfect information**
- **Zero transaction costs**
- **Profit/utility maximization**
- **Homogeneous products**
- **Non-increasing returns to scale**
- **Property rights**

# The labour market



# Prerequisites for 'perfect competition'

- Practically all of them are violated on the 'market for labour'
  - Limited number of employers → monopsony power
  - There are entry costs for starting (or growing) a business
  - Labour is not perfectly mobile
  - **Labour market has information problems in abundance.**
  - **Lots of transaction costs**
  - Profit/utility maximalisation? Rational behaviour?
  - **Labour is not a homogenous good**
  - Economies of scale do exist, particularly with employers, e.g. in combination with capital goods.

# Important conclusion

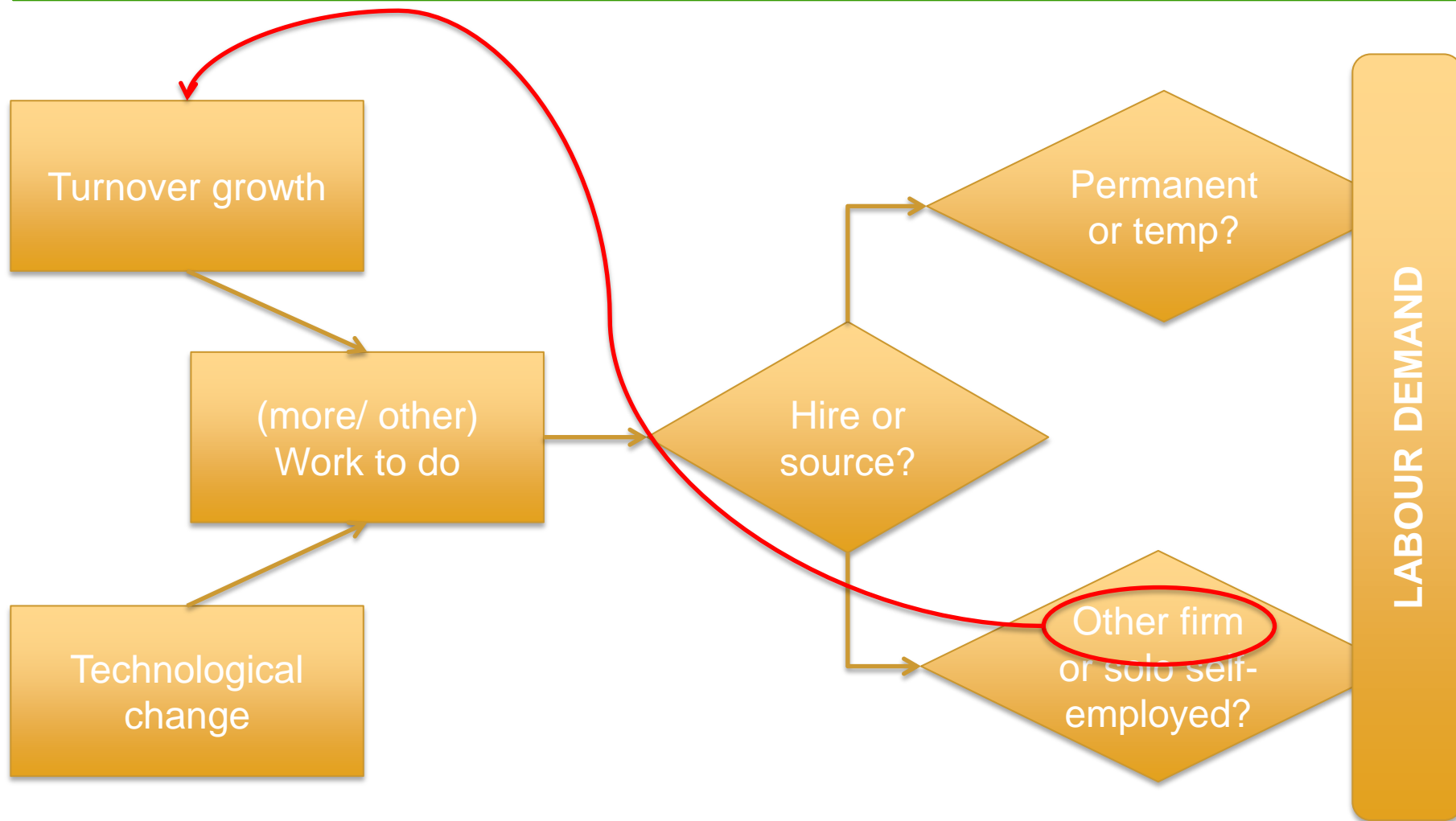
- The labour market doesn't work
- Or..
- The labour market is inherently imperfect
  - See: **Boeri, T, & J. van Ours**, (2008), *The economics of imperfect labor markets*, Princeton University Press, Princeton



# Labour demand behaviour of employers

- Not much is known
- How do employers get from 'we have work to do' to 'we want to hire a new employee'?
- What shape does labour demand take?
  - Employment
    - Permanent
    - Temporary/flexible
  - Outsourcing
    - Other firms
    - Solo self-employed

# Employer behaviour

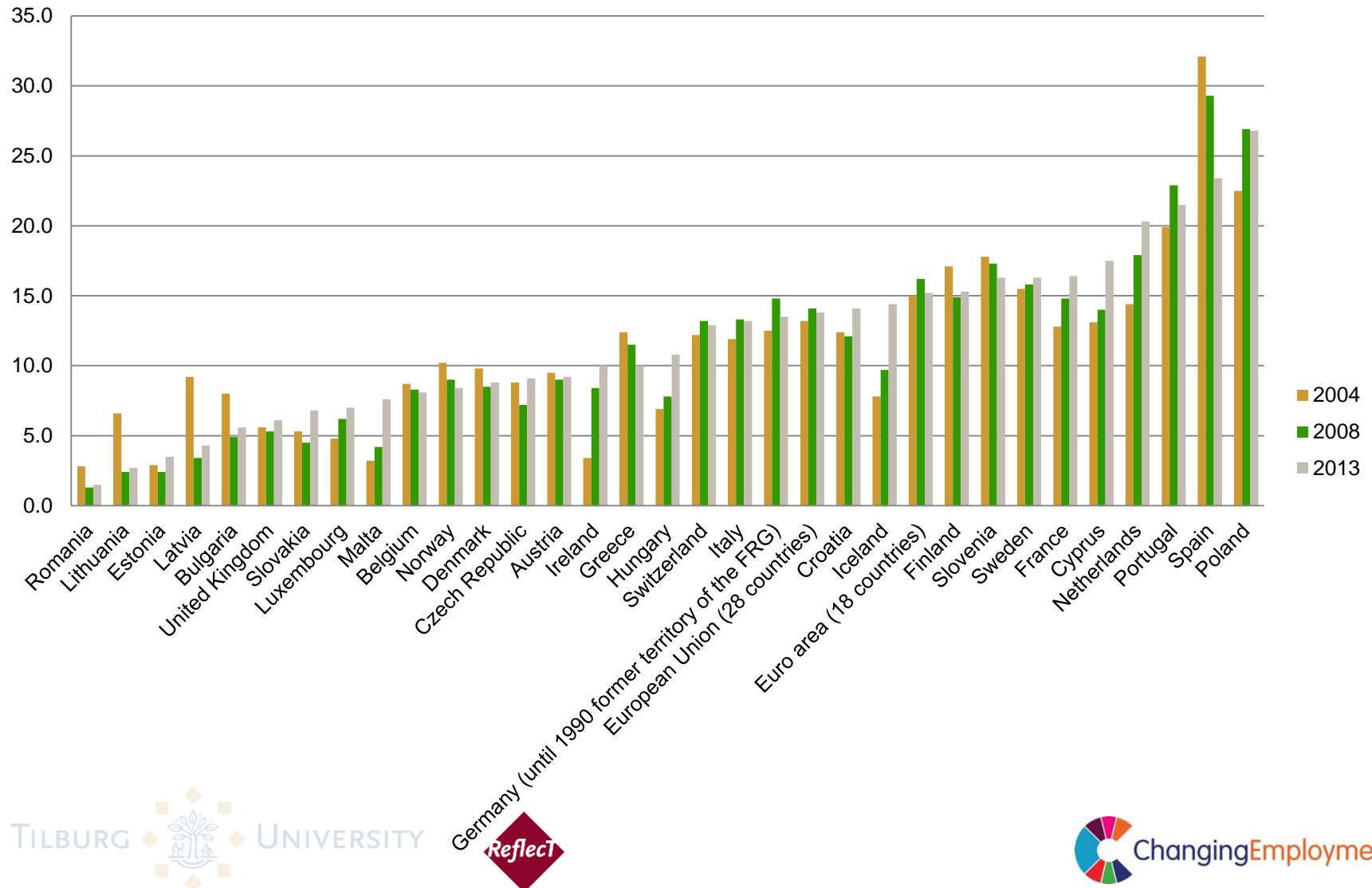


# Result: labour demand with many different forms of 'labour contracts'

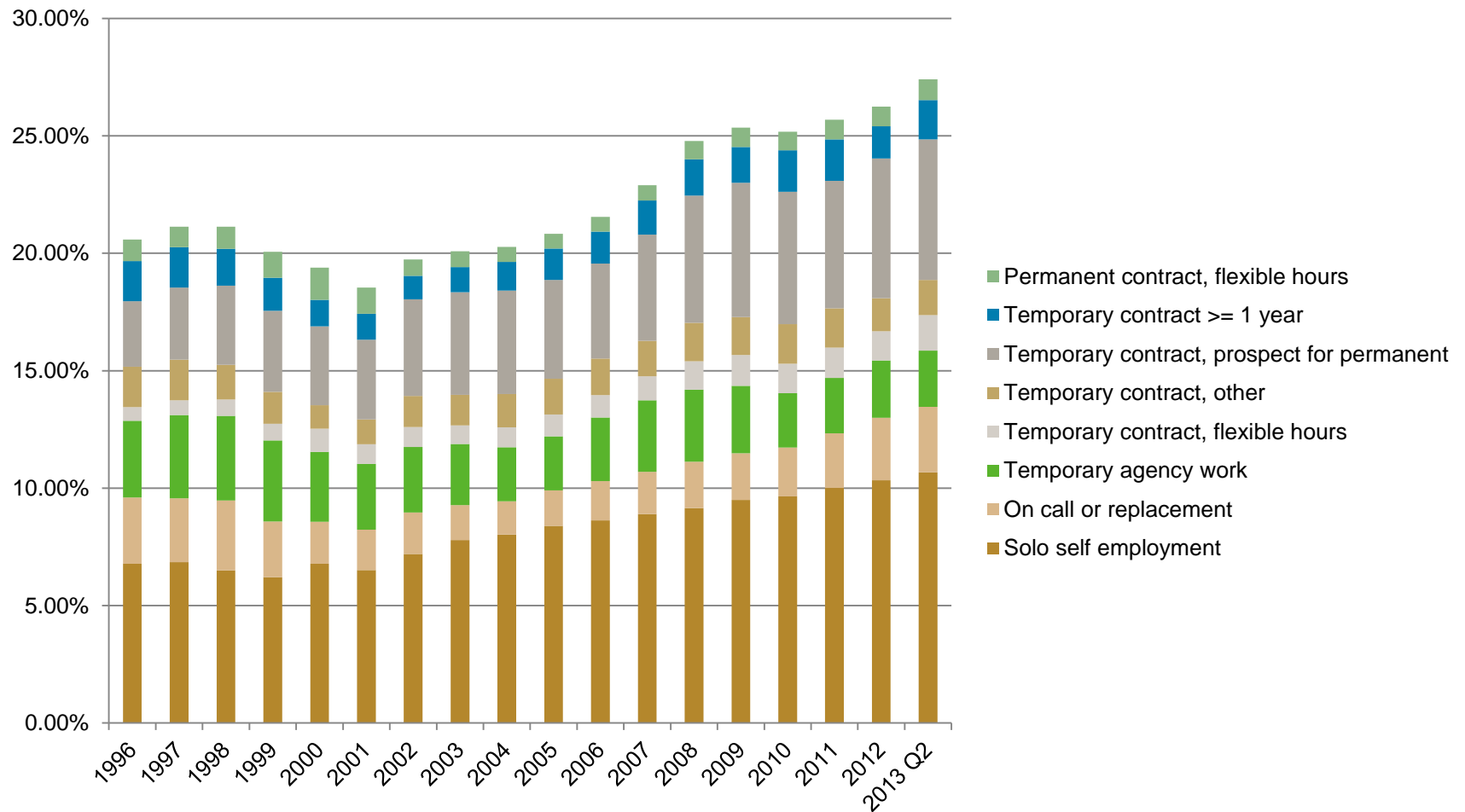
- For employees:
  - Permanent and flexible
- In the Netherlands (and most other countries) the permanent contract is still the 'norm'.
- Depending on the definition, about 65 to 80 percent of the work force in the Netherlands has a permanent job
  - About half of these jobs are part-time
  - A large majority of part-time work is voluntary.
  - About 10% of the workforce is solo self employed

# Share of temp. employees

Share of temporary employees (%), EU countries, 2004-2013



# Share of 'flexwork' in the active workforce, Netherlands, 1996-2013





# Conclusions

- The share of flexible employment in the total workforce is increasing in the Netherlands, mainly through temporary contracts wfpf and self employment
- The transition rate to permanent employment is decreasing for all forms of flexwork.
- The two findings above suggest a growing divide between flexible and permanent segments on the labour market
- This growing divide cannot be attributed to 'composition effects' and/or the business cycle.
- Other explanation: **changing employer behaviour**, facilitated by institutional changes (F&S Act, 1999, regulations with regard to sick pay, 1996, 2004)

# Employer behaviour in using flexible labour

- Hire or source? Permanent or temp?
- Relevant questions:
  1. Is the work involved inherently temporary (e.g. replacement, temporary project, seasonal peaks, etc.) → hire, temp
  2. Selection/probation period? → hire, temp
  3. Hiring specific knowledge or skills → source, other firm/solo se
  4. 'Churning' (lowering costs and risks for the employer, even when the work involved is 'structural') → hire, temp & source
- There is a general notion that the use of flexible labour for 'churning' reasons has become more prevalent over the last 15 years in the Netherlands
- Other countries?

# Economic rationality: costs vs benefits?

- Are employers making rational hiring and sourcing decisions?
- Typically an economist would assume this, or assume that employers that don't will be 'out-competed' by other firms.
- But: the labour market is not working!
- Allow for the possibility of irrational employer behaviour
- E.g.: the use of too much flexibility

# Cost/benefit analysis for flexible labour

## Costs (hypotheses, based upon theory)

- worker
  - Lower wage (in comparison to permanent jobs)
  - Insecurity (mainly in comparison to permanent jobs)
  - Lower investment in skills
- Employer/hiring firm
  - Transaction costs/productivity losses
- The economy
  - Insecurity
  - Lower investment in skills
  - Transaction costs/productivity losses

# Cost/benefit analysis for flexible labour

Benefits (hypotheses, based on theory)

- Worker
  - Employment
  - Wage income (in comparison to unemployment)
  - Perspective (in comparison to unemployment)
- Employer/hiring firm
  - Flexibility
  - Risk reduction
  - Productivity gains (?)
- The economy
  - Flexibility
  - Employment?



# Balancing costs and benefits

## Worker

- Balance is mainly negative
- Mainly costs, fewer benefits
- Exception: 'stepping stone' to permanent employment from unemployment

## Employer/hiring firm

- Balance positive in the short-term
- Positive balance less clear in the long run
- Evident short-term cost advantages
- Disadvantages also evident, but more difficult to quantify and more long-term

# Balancing costs and benefits

## The economy as a whole

- Balance not positive, mainly because hypothesized positive effects on the level of employment are lacking.
- Benefits: A certain degree of flexibility is useful for integrating 'outsiders' into the labour market. Short-term cost advantage for employers.
- Costs: Higher levels of insecurity, more workplace accidents, health risks. Possibly negative effects on productivity/innovation.

# Conclusions cost/benefit analysis

- No ponderous arguments for (even) more flexible labour
- Attention is needed for keeping/improving beneficial effects of flexible labour for integrating 'outsiders' into the labour market.
- More research needed with microdata for firms/establishments.
- NB: restrictions on the use of flexible labour could lead to more (spurious) self-employment
- Insecure work 'with real prospects' is better than no work at all

# Consequences for employability

- To much flexibility will result in:
  - Higher unemployment incidence → loss of human capital
  - Lower investment in training → less growth in human capital
- As a result the average level of employability will decrease and the 'distribution of employability' will be more unequal.

# Consequences for inclusion

- Typically, workers with lower levels of human capital will experience:
  - Employers not willing to hire them
  - Employers only willing to hire them on flexible contracts
- Result: risk of downward spiral in socio-economic turns
- The labour market (and employers) is (are) exclusive rather than inclusive and more flexible labour markets could lead to even more 'exclusion'.



# Research agenda

- Test hypotheses/assumptions about employer behaviour
  - Qualitative and quantitative research
  - Use longitudinal labour demand data, possibly administrative data
- Possible research questions:
  - What are the determinants of the 'hire-source' decision?
  - What are the determinants of the 'perm-temp' decision?
  - Are employers creating more employment when they have more flexible options?
  - To what extent can employers be 'nudged' to be more 'inclusive'?
  - To what extent can employers be 'nudged' to invest more in 'employability'?