

Summary

Temporary employment

Effects of economic downturn and long-term sick leave

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Summary

Growth in temporary employment due to changing preferences among employers

Ever more employees are working on temporary employment contracts. Between 2003 and 2017, the proportion rose from 16% to 27% (Statistics Netherlands, CBS 2018). This trend is unlikely to be due to changing preferences among employees (Netherlands Bureau for Economic Policy Analysis, CPB 2016), because they generally prefer permanent employment contracts (Donker van Heel et al. 2013; Vlasblom and Josten 2013; CBS 2016). The trend seems largely to be driven by employer preferences.

How has this increase in temporary employment come about?

During an economic downturn, like the one we have seen in recent years, temporary employees are often the first to lose their job. Assuming that some of those workers become unemployed and not all will find temporary work elsewhere, this ought to have reduced the proportion of employees on temporary employment contracts. However, the number has continued to rise, and more quickly than in neighbouring countries (CPB 2016). This raises two questions. The first is which underlying changes are taking place. Have new employees been employed on a temporary employment contract more often than was previously the case? Or has it been taking longer for temporary contracts to be converted into permanent employment contracts? The second question is why employers have been employing increasing numbers of workers on temporary contracts.

What was the role of the economic downturn and increased liability for employers in relation to employees who are sick?

This report addresses both these questions. With regard to why this trend is occurring, two explanations are increasingly being offered: the unfavourable economic conditions of recent years, and employers' increased liabilities with regard to employees who are on long-term sick leave. Previous research (CPB 2016) has concluded that the unfavourable economic situation cannot be the primary cause, because the proportion of temporary employees has been increasing for several decades, since 1995. Here, we measure the economic situation using more indicators than in previous research, in order to see if a better explanation can be found for the rise in temporary employment. The role of the increase in employers' liabilities in the event of long-term sick leave has, to our knowledge, never been investigated before.

Why might both of these factors - the economic situation and employers' liabilities - promote the use of temporary employment contracts? One frequently heard argument is that employers like to employ temporary staff in order to minimize their risks, including risks in relation to these two areas. Let us consider the first risk: unfavourable economic conditions. A flexible workforce is more convenient for employers, because not extending temporary employment contracts is cheaper than making permanent employees redundant (De Graaf-Zijl 2005b).

Temporary employment contracts can also reduce the second risk for the employer: their liabilities in relation to the costs of long-term sick leave. These costs have been increasing steadily over the past twenty years in order to reduce the number of persons who apply for disability benefits. For example, employers are now required to pay sick staff members for up to two years, and they are also obliged to make more effort to reintegrate them into the workplace than previously. Offering new employees a temporary employment contract allows employers more time to assess the health of new employees and select people with a lower risk of illness (Cuelenaere and Veerman 2013; Euwals et al. 2014).

For small and medium-sized employers in particular, employers' financial liabilities in the event of sickness represent a significant risk (Kok et al. 2013; De Jong et al. 2014). This is particularly true when these employers are not insured against the costs of continuing to pay an employee's wages if that employee becomes ill; this applies to around 20-30% of employers in this group (De Jong et al. 2014).

In order to make permanent employment contracts more attractive to small employers, the coalition agreement for the present government states that it will reduce employers' obligation to pay their employees to one year in the case of companies with 24 employees or fewer (vvd et al. 2017). The details of this policy change - and possible alternatives - are currently under discussion (Leupen and Winkel 2018).

Research design: exploration

This report is based on two data files. The first question – has temporary employment been rising because people are being given temporary employment contracts more often and/or kept on them for longer? – is answered using data on employees. The second question – what was the contribution of the unfavourable economic situation and employers' liabilities in relation to sick leave to the growth in temporary employment? – is explored using figures from employers. We examine whether employers are more likely to offer temporary employment contracts to new employees when their company is performing less well or if they have previously had a staff member on long-term sick leave. Unfortunately, we were unable to determine if this had an effect on whether employers waited longer before converting temporary contracts into permanent ones. Depending on the datasets in question, the data in this report runs from the mid-1990s or early 2000s until 2014 or 2016.

The study is exploratory in nature, particularly the section that focuses on the relationship between long-term sick leave and the use of temporary contracts. The dataset that we have available is less detailed than we would have preferred, and only relates to cases of long-term sick leave that resulted in employees subsequently receiving disability benefits. The study described here therefore represents an initial exploration of the relationship between employers' liabilities in relation to long-term sick leave and the use of temporary employment contracts.

New employees more likely to commence employment on a temporary contract, and to stay on a temporary contract for longer

Our figures show that the growth in temporary employment is attributable to two underlying changes. First of all, people are more likely to be offered a temporary employment contract than in the past when they commence employment. In 2002-2004, 71% of new employees commenced employment on a temporary contract; by 2012-2014 this number had risen to 86%. Secondly, new staff now remain on a temporary employment contract for longer than in the past. In 2012-2014, employees had to stay with an employer for more than three years before they were as likely to be given a permanent employment contract as their colleagues who started in 1994-2002.

It seems likely that employers now extend temporary contracts more often than they did in the past, before converting them into permanent employment contracts or terminating them; the increase in temporary employment among those who have been employed for a period of one to three years by their current employer certainly indicates this.

More temporary contracts upon commencing employment when the economic situation deteriorates

The unfavourable economic situation has indeed led to a growing trend towards more temporary employment contracts. According to our data, companies were more likely to offer a temporary employment contract to a new employee when economic growth in their regional sector of industry was falling, when they were planning to reduce the size of their workforce, or when regional unemployment was rising. Of these three factors, the regional unemployment rate had the strongest effect. This aspect reflects the bargaining power of job applicants. Changes in the future expectations of employers, their sensitivity to fluctuations in the economy and the presence of vacancies within the company that were difficult to fill had no effect.

Contribution of unfavourable economic conditions to the rise in temporary employment is estimated to be limited

All these economic factors together account for around a quarter of the total rise in the percentage of temporary employment contracts upon commencement of employment. Perhaps there are economic factors that we do not yet know about, such as the financial situation of the company in question, that would increase the explanatory power of economic factors. It is clear that the deterioration in economic conditions has contributed to the rise in temporary employment, but it is certainly not the only cause.

More temporary contracts following a case of long-term sick leave among uninsured small to medium-sized employers

As explained previously, our database only includes cases of long-term sick leave that subsequently led to the payment of disability benefits. For small to medium-sized employers who are not insured, this type of absenteeism had a demonstrable impact on recruitment policy. These employers offered 95% of their new employees a temporary employment

contract if, in the previous two years, one of their staff members had gone on to claim disability benefits. Among the other employers, only 84% of new employees would be offered such a contract. Among other groups of employers - insured companies (regardless of size) and larger uninsured companies - there was no visible effect. This finding was to be expected: the financial effect of a long-term absence is more limited at these companies than for uninsured small or medium-sized employers. In cases where the employer is insured, the financial effect is mitigated by payments from the insurer. For larger employers, the amount of long-term sick leave is less likely to fluctuate from year to year than it is for smaller employers; this enables larger employers to reserve funds for this purpose on an annual basis.

Contribution of cases of long-term sick leave to rise in temporary employment is estimated to be limited

The difference in temporary employment upon commencing employment is therefore fairly large for uninsured small or medium-sized companies: 11 percentage points. However, it is estimated that only 17% of all employees in the Netherlands work for this type of employer, so this can only explain a limited part of the rise in temporary employment. Perhaps the explanatory power of this variable would have been greater if we had also had information about long-term sick leave among employees who did not go on to claim disability benefits.

Risk assessments and indirect experience probably also have an effect

Employers' direct experiences of a deteriorating economic climate and cases of long-term sick leave have contributed to the rise in the number of temporary employment contracts offered to newly recruited employees. However, employers' attitudes and decisions depend not only on their direct experience of such situations; their assessment of the risks involved, stories told by other employers and collective opinion-forming also play a role. For example, employers may make different recruitment decisions if their peers run into financial difficulties due to the unfavourable economic climate for businesses, or due to cases of long-term sick leave among their employees; after all, the same problems could also affect them one day. The effect of employers' own experiences, assessment of the risks and the experiences of other employers as a whole is probably greater than the effect of their direct experiences alone. However, we do not know how much greater; no conclusions about this can be drawn on the basis of this study.

Causes of the rise in temporary employment vary between employers

In recent years, various studies have been published which have sought to identify the decisive factor(s) in the rise in temporary employment (e.g. Euwals et al. 2016; Kremer et al. 2017). Our results are consistent with the results of those studies: there is no one factor that explains many employers' decisions to opt for temporary employment contracts. The economic climate affects some of those decisions, as well as previous experiences of long-term sick leave among staff members. For other employers, however, these factors seem

to be much less important. It is possible that they have been subject to increasing pressure to control personnel costs due to globalization or increased competition; they may have become more cautious about taking on permanent staff due to employers' liabilities in general (sick pay, reintegration, redundancy); or they may simply have been following the lead of other employers (Dekker and De Beer 2014; Dekker 2016; Kremer et al. 2017).

Limiting employers' liability for sick pay alone will probably have a limited effect

The coalition agreement of the current government includes the aim of making permanent employment contracts more attractive to employers by, among other things, limiting the liability of smaller employers for sick pay during long-term sick leave. However, the fact that the rise in temporary employment can be attributed to several different causes means that the importance of a single aspect, such as employers' liability for sick pay, should not be overestimated; this change alone will not ensure that employers will suddenly start offering far more permanent employment contracts. This does not alter the fact that long-term sick leave, on-going liability for salary payments and reintegration obligations can represent a heavy burden for smaller companies. And neither does it exclude the possibility that the overall package of employers' liabilities may, as a whole, strongly influence their recruitment decisions. It would therefore be advisable to take account of such unintended and undesirable consequences when developing future policy measures.