Job Security and New Restrictive Permanent Contracts. Are Spanish Workers More Worried of Losing Their Job?

Elisabetta Trevisan
CCP (Aarhus School of Business) & Department of Economics, Ca’ Foscari University Venice

Mannheim - 27-28 October 2006
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- **Increasing importance** of the concept of job security.
  - Givord and Maurin (2003)
- **Relationship** between the institutional characteristics of the labor market and the perceived job security.
  - Campbell et al. (2004)
  - Clark and Postel-Vinay (2005)
- The 1997’s reform is not a reform **at the margin**
- It is a **natural experiment**
  - Kugler et al. (2003)
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- **Question** - If job security and EPL are linked, are the changes in institutional regimes going to affect the level of job security?

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Two main steps

- **1984** - liberalization of fixed term contracts.
  - Large increase in the use of fixed term contracts.
  - Middle 90s - $\frac{1}{3}$ of Spanish employees worked under temporary contracts; 90% of new signed contracts was temporary.
- **1997** - introduction of new permanent contract with lower firing costs and pay-roll taxes.
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The 1997 reform

- It reduces dismissal costs for unfair dismissal by 25% and pay-roll taxes between 40% and 90%.
- It applies to newly signed contracts or conversion of temporary into permanent contracts for:
  - Workers under 30 years of age
  - Workers over 45 years of age
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**Why?** - It reduces the heterogeneity of the treatment and the control groups and make them comparable

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- Obtain the propensity score and identify for each treated all non treated who match on the propensity score year by year;
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# Identification Strategy

<table>
<thead>
<tr>
<th>Treatment groups</th>
<th>Control groups</th>
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</thead>
<tbody>
<tr>
<td>Below 30 with temporary contracts</td>
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</tr>
<tr>
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<td>Age 30-36 with temporary contracts</td>
</tr>
<tr>
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- **Demographics**: age, sex, marital status, immigrant, level of education, number of children.
- **Job characteristics**: professional positions, sector (public or private), industry, firm size, part time, past experience of unemployment, spell of unemployment, experience on the labor market.
- **Income**: Income of the other component of the household.
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<tbody>
<tr>
<td>DID98,95</td>
<td>1,321(t)</td>
<td>1,276(t)</td>
<td>-0.428*</td>
<td>323(t)</td>
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<tr>
<td></td>
<td>579(c)</td>
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## Empirical Analysis

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Panel Analysis: Within Estimator

- We balance the panel.
- We match the treatment and the control groups at the 1995 on the basis of the observable characteristics.
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## Within Estimator

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- The effect if positive if compared with the first control group (i.e. permanent workers with less than 30 years of age), negative in the second comparison.
- The positive effect is increasing over time, the negative one is decreasing.

**Within estimator:**
- The effect is positive in both comparison.
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