4.2 Reasons for temporary contracts

Few studies have examined why recent graduates enter into temporary contracts. In general, the minimization of adjustment costs of the workforce can be seen as the main motive for employers to offer temporary contracts. Fluctuations in the demand for goods and services (like seasonal work) and temporary absences of incumbent staff due to for example holidays or sickness are the most prevalent motives (Dutch: ‘piek en ziek’) for employers to hire flexible workers (Houseman, 2001; Storrie, 2002). Other related motives for employers to choose flexible workers include filling a position temporarily to bridge the time until an appropriate permanent worker is found, and hiring expertise required for specific projects. It is, however, not known to what extent these motives are relevant for recent graduates.

Another important motive for employers to offer graduates a temporary contract may be the screening motive (Winkler, 1987). The employer can offer permanent contracts to the most able graduates or those that meet the required standards. Autor (2004) asserts that temporary agency work is more important as a screening instrument than for dealing with fluctuations over the business cycle. Temporary employment agencies are able to gather important information concerning the quality and motivation of temporary agency workers by training and testing them. Thus, they may be better able to match graduates and vacancies than employers are.

Although temporary contracts can be useful for employers for the above mentioned reasons, flexible work may be related to so-called ‘bad jobs’ in the secondary labour market segment (Doeringer and Piore, 1971; Reich et al., 1973; Rebitzer and Taylor, 1991). This may be particularly true for those groups that traditionally have a weak position in the labour market in terms of high unemployment and loose attachment to the labour market. These groups include not only immigrant, low-skilled and female workers, but also young people entering the labour market. Young people may move from one flexible job to another, interrupted by periods of unemployment or inactivity. Another explanation for a higher incidence of flexible jobs among graduates can be inferred from the so-called insider-outsider theory (Bentolila and Dolado, 1994). Permanent workers (insiders) dominate the labour unions and will make sure that their terms of employment are guaranteed as much as possible relative to the outsiders. These outsiders are the groups of people with a weak link to the labour market, including new entrants like recent graduates. Unfavourable job aspects for the outsiders’ jobs may include temporary contracts and low wages as well as detrimental working conditions, more work accidents, lack of training opportunities and higher job strain (Houseman, 2001; Zijl, 2006). Thus, an employer may choose to employ graduates on a temporary basis to offer lower wages, less training or worse working conditions.

Young people, including recent graduates, must often accept temporary rather than permanent jobs when they are faced with high youth unemployment rates (Treu, 1992). Two empirical studies specifically analyse the labour market position of recent graduates, and point to the less attractive aspects of temporary jobs among these graduates. Wieling and Borghans (2001) show that the incidence of temporary work for Dutch graduates of different educational programs depends on excess supply of people educated in these programs on the labour market. They find that working for a low wage, below the educational level (i.e., the graduate is overeducated) or outside the occupational domain are other job aspects associated with temporary jobs that indicate a weak labour market position for recent graduates. Furthermore, Try (2004) shows that temporary jobs are widespread among recent graduates in Norway, and that temporary jobs are generally associated with working below the educational level and for lower wages.

Since most individuals are risk averse, graduates will usually prefer permanent over flexible jobs. According to the theory of compensating wage differentials (Rosen, 1986), employees should only accept a temporary job if they receive a higher salary than that of permanent workers. However, as has been argued above, compensation for temporary workers is lower than for permanent workers with the same background characteristics and occupying the same kind of job (European Commission, 2003). These so-called wage penalties vary from ca. 5 percent less remuneration in France, Germany, Belgium and Austria to more than 15 percent less in the Netherlands. Nevertheless, it may be expected that graduates who are least risk averse (i.e. most willing to take risks and require the smallest compensation), will have the highest probability to end up in flexible work (Dohmen et al., 2009).
Of course, temporary contracts make it possible for recent graduates whose manpower is only required on a temporary basis to be employed and have income anyway. Temporary contracts may increase the probability that unemployed graduates enter the labour market, which reduces unemployment duration. When people are offered employment by means of temporary contracts, they can obtain work experience, acquire essential competencies that make them more attractive for other employers, demonstrate their motivation and capacities and develop their informal network. Thus flexible jobs may serve as a stepping stone toward a permanent job (Booth et al., 2002; Heyma and De Graaf-Zijl, 2009). Try (2004) indeed finds evidence that recent graduates consider some flexible jobs (in particular, research fellowships) as a good investment opportunity.

There are many other motives for choosing flexible jobs (Ecorys-NEI, 2002; Houseman, 2001), which may in particular hold for recent graduates. They can use flexible jobs for screening interesting jobs or employers, choose for flexible jobs if they like variation in their work, or bridge the time to another (permanent) job. Flexible work may provide extra income relative to receiving unemployment benefits, or can be supplementary to earnings in another job or to a study grant.

4.3 Data preview

To distinguish between the types of employment contracts offered to graduates, the definition for flexible work by Statistics Netherlands (CBS) has been adopted. Statistics Netherlands distinguishes the following types of flexible employees: workers with a fixed-term contract, temporary agency workers, and on-call workers. In this definition of flexible work, Statistics Netherlands excludes the self-employed, freelancers and so forth. To construct the sample of permanent and temporary graduates in this chapter, we exclude the small groups of on-call and self-employed workers and include all recent graduates working at least one hour per week, in contrast to the 12-hour threshold used by Statistics Netherlands. A sample of almost 300,000 graduates remained for the period from 1996 to 2008.

Data are drawn from large-scale graduate surveys conducted annually in the Netherlands by the Research Centre for Education and the Labour Market (ROA). These surveys include recent graduates of pre-secondary vocational (VMBO), upper general secondary (HAVO), pre-university (VWO), secondary vocational (MBO, or BOL/BBL), higher professional (HBO) and university (WO) education. The surveys take place 18 months after graduation and focus on aspects of the education-to-work transition. Extensive information is collected on the graduates’ educational background as well as their current job. The information on graduates’ current job includes income, hours worked, type of contract and a variety of other indicators of the quality of the job match. To measure the match between education level and current job, the survey uses an employee self-rating method in which respondents are asked to indicate the education level required by the employer and the match between their field of study and their current job. For this chapter we use the surveys conducted between 1996 and 2008, which refer to the 1994/1995 to 2006/2007 graduate cohorts.

Figure 4.1 shows the proportion of recent graduates in flexible jobs (excluding the self-employed), broken down by level of education for the period 1996-2008. Except for university graduates (WO), the figure suggests that the share of flexible work among recent graduates is cyclical. From 1996 to 2001, continuing economic growth, declining unemployment and a rising number of vacancies increased the bargaining position of workers, including recent graduates, and resulted in a lower percentage of graduates accepting flexible work positions. When economic growth declines or the economy shrinks, it is cheaper for employers to fire the flexible workforce first. Since Dutch economic growth began to decline in

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16 For example, Wieling and Borghans (2001) refer to the possibility of a trade-off between different job aspects, including temporary work.
17 However, in the figures below we use the 12-hour threshold.
18 For many analyses in Section 4.5, the number of graduates is lower since a shorter period must be used due to missing variables.
19 BOL (Beroepsopleidende Leerweg) refers to primarily school-based vocational education, whereas in BBL (Beroepsbegeleidende Leerweg), apprentices go to school about one day each week. Both tracks are part of the so-called dual system of intermediate vocational education in the Netherlands. In accordance with the definition by Statistics Netherlands, the lowest of the four levels of BOL/BBL is considered to be the VMBO-level.
20 HBO-institutions profile themselves internationally as universities of applied sciences.