

University of Luxembourg  
21 April 2015



# *NON-STANDARD WORK AND INEQUALITY*

*Ana Llana-Nozal*

*OECD Social Policy Division*



# The necessity to follow up labour market inequalities

---

## Background

- Changes in earnings and labour market conditions are the most important *direct* key driver of rising income inequalities (OECD, 2011)
- Policy trade-offs: Many regulatory reforms and institutional changes tended to increase *employment* opportunities, at the same time they were associated with wider *wage inequality*

## Questions

- To which extent are labour market inequalities driven by gaps between “typical” and “atypical” non-standard forms of employment?
- Do non-standard jobs pay less and are of poorer quality?
- To what extent are non-standard jobs “stepping stones” to improved labour market prospects, or rather “traps”?
- How do non-standard work patterns affect *household* earnings and income inequality?



# Non-standard employment and inequality

---

## 1. Development and characteristics of non-standard employment

- Factors driving NSW
- Share of NSW and trends in OECD countries
- Is employment growth polarising?

## 2. Labour market prospects of non-standard workers

- Are non-standard workers in low-paid or lower quality jobs?
- “Stepping stones” or “dead ends”?
- NSW and the earnings distribution

## 3. How does NSW affect household income inequalities and poverty?

- Distributional position of NS workers in household income distribution
- Contribution of NSW sources to income inequality
- Poverty and NSW
- The role of taxes and benefits



# “Non-standard” / “atypical” work: a fuzzy concept

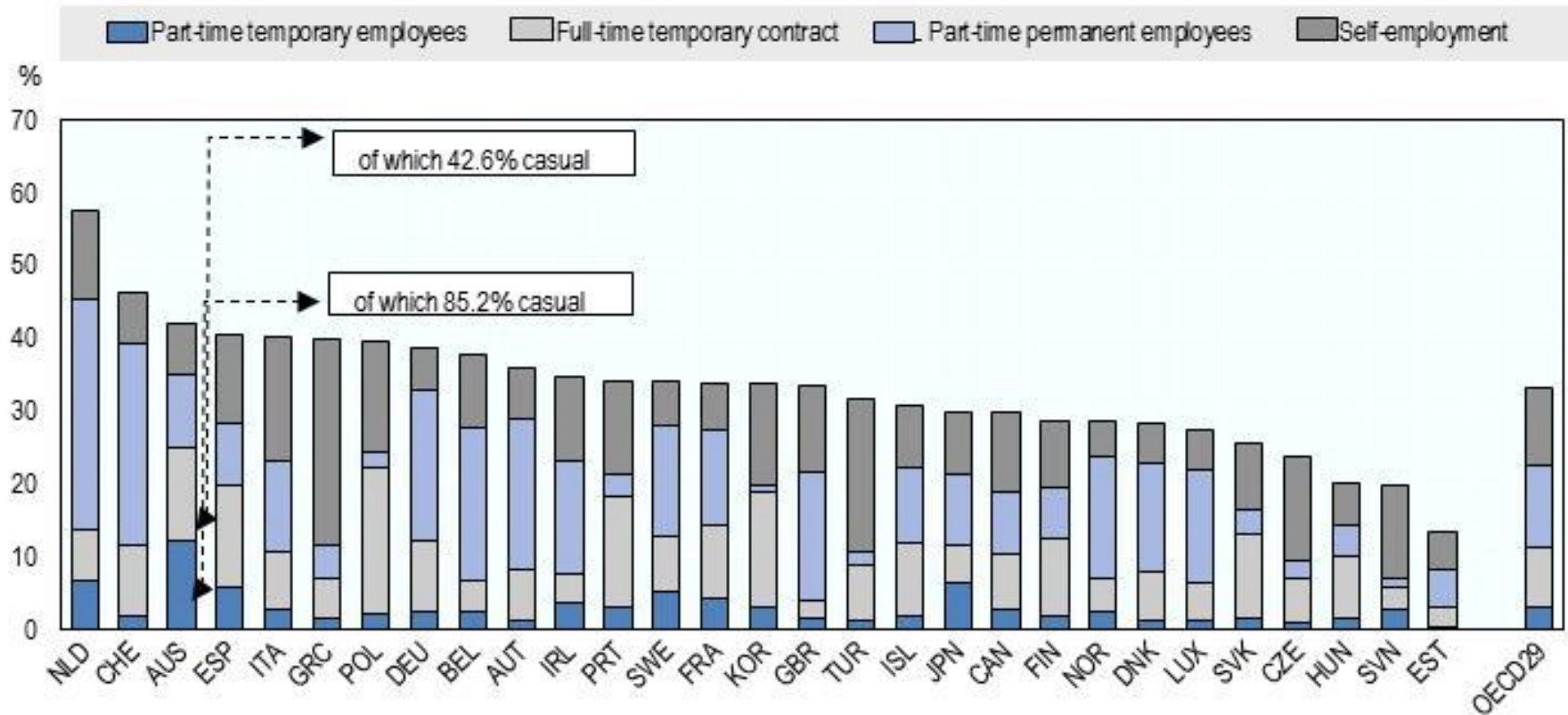
---

- Country-specific conventions
- Data issues
- In its broadest terms, defined by what it is *not* (full-time dependent employment with an indefinite duration contract)
- → includes self-employment, all temporary and all part-time employees
- Broad definition used by Eurofund, ILO, WB
- Not a normative concept, and different from the notion of precarious employment



# Share of non-standard work is sizeable but very different across the OECD

Share of non-standard employment in total employment, 2013 or close



Note: Sample restricted to paid and self-employed (own account) workers aged 15-64 years old, excluding employers, student workers and apprentices.

Source: OECD (2015); EULFS; KLIPS for Korea, LFS for Japan, HILDA for Australia and LFS for Canada.



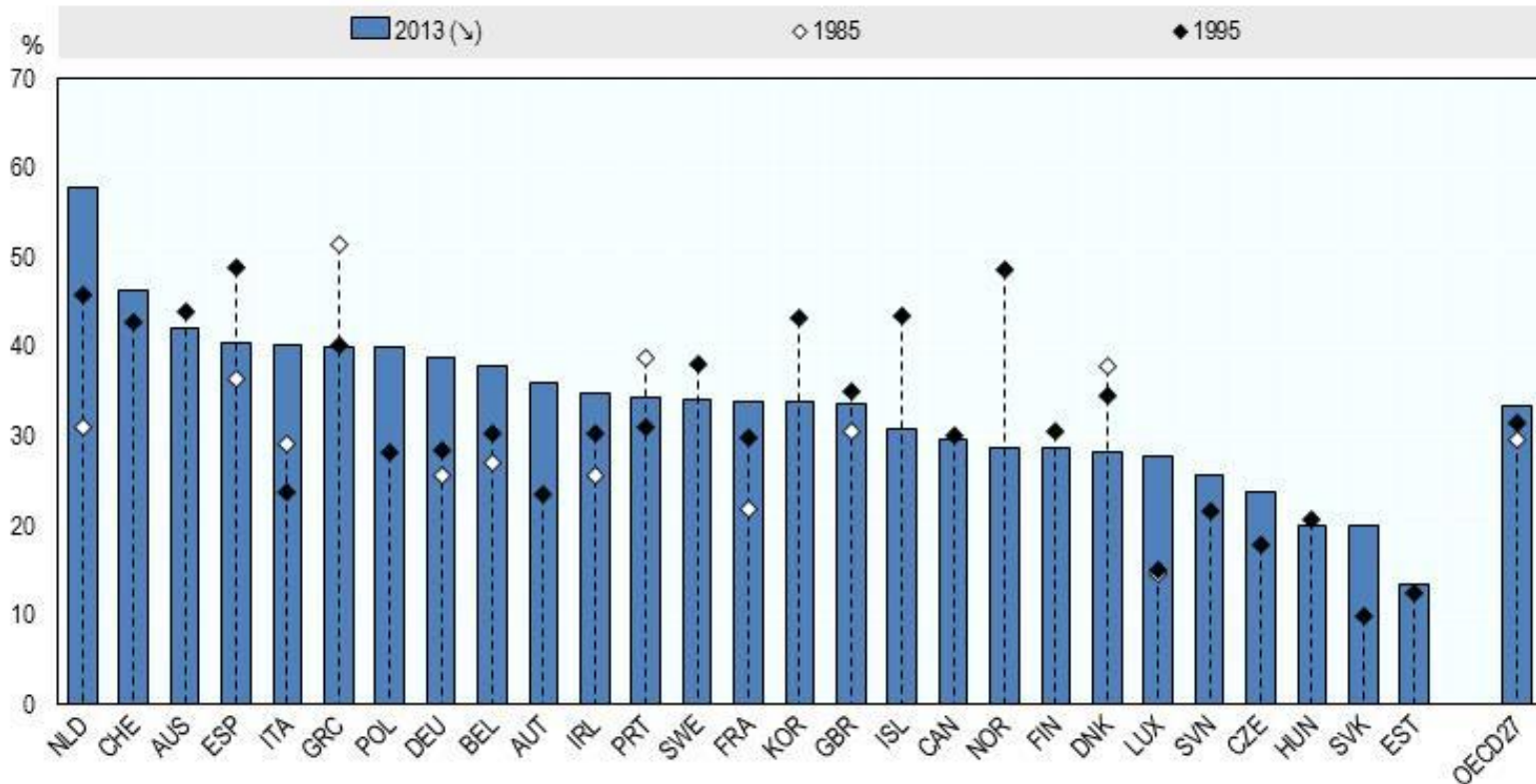
# Who are most likely to be in NSW?

---

- Women are slightly over-represented if part-time work is included
- Youth are overrepresented in temporary employment and overall incidence of NSW is high among youth
- Incidence of NSW is 30% higher (60% in case of temporary employment) for the low-educated
- Incidence of NSW is close to 50% higher for elementary and semi-skilled occupations (than for skilled/highly skilled).



# The share of NSW has increased moderately across OECD



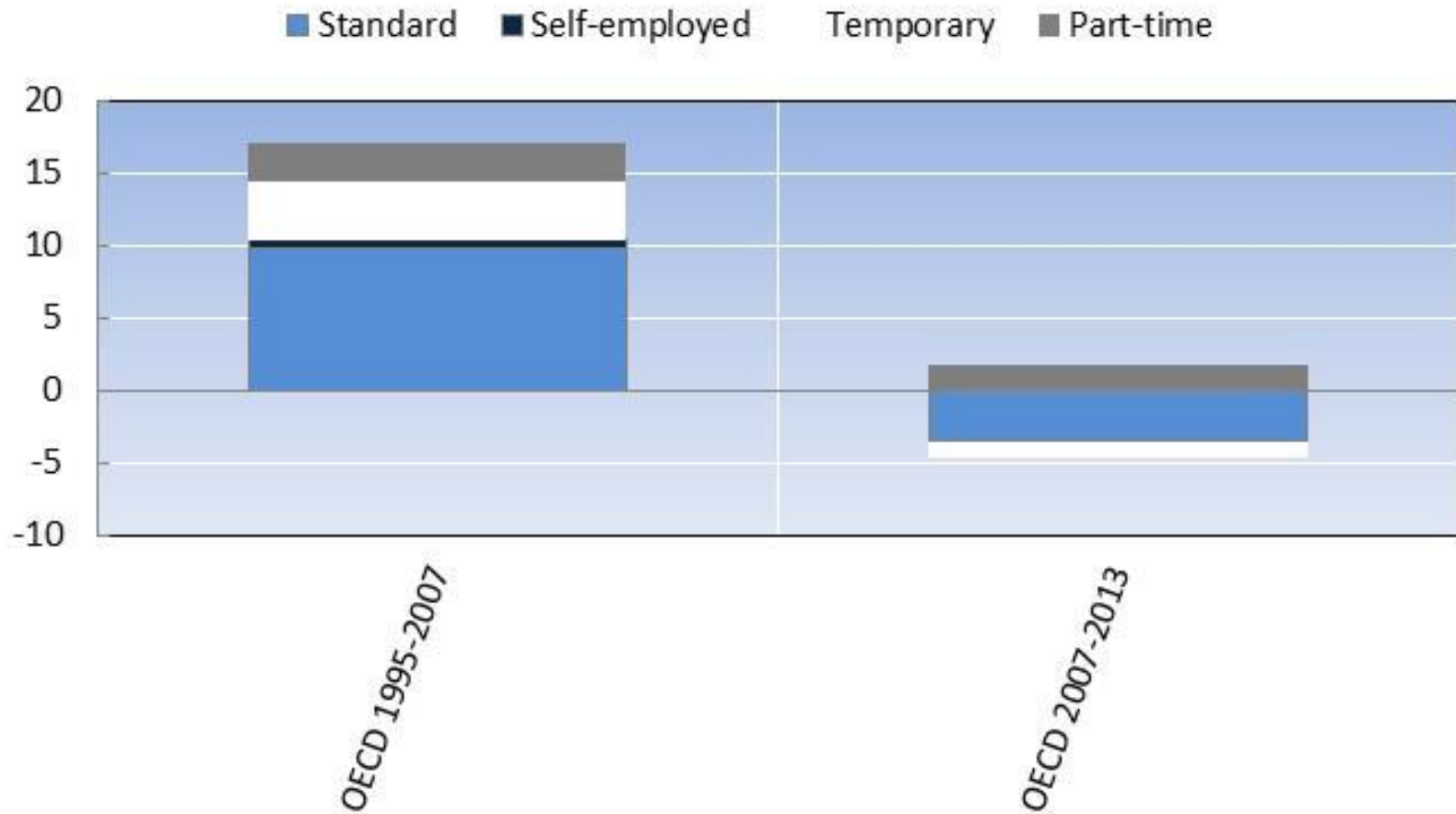
Note: Sample restricted to paid and self-employed (own account) workers aged 15-64 years old, excluding employers, student workers and apprentices.

Source: OECD (2015); EULFS; KLIPS for Korea, LFS for Japan, HILDA for Australia and LFS for Canada.



# Non-standard work played an important role for employment changes prior, and during the crisis

## Employment growth, by type of contract, 1995-2007 and 2007-13

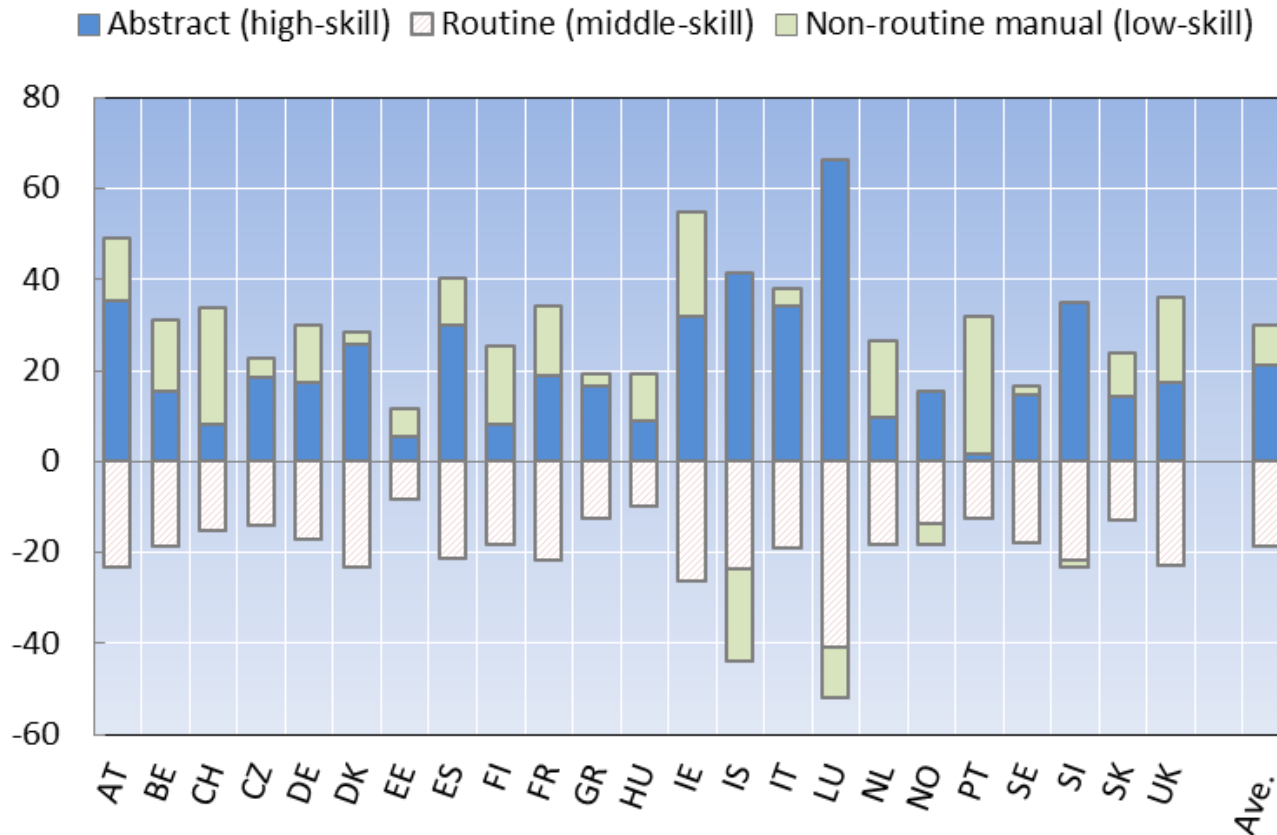






# In most countries employment has polarised into high- and low-skill jobs, away from routine jobs

Percentage change in employment shares by task category, 1995/98-latest available year

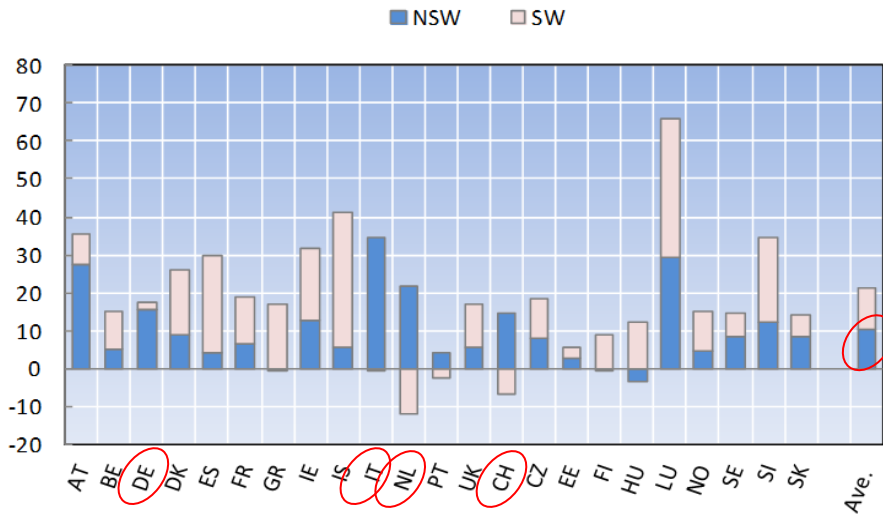


Note: Abstract occupations (ISCO88: 12-34); Routine (ISCO88: 41-42, 52, 71-74, 81-82 and 93); Non-routine manual (ISCO88: 51 83 and 91). The overall sample restricted to workers aged 15-64, excluding employers as well as students working part-time.

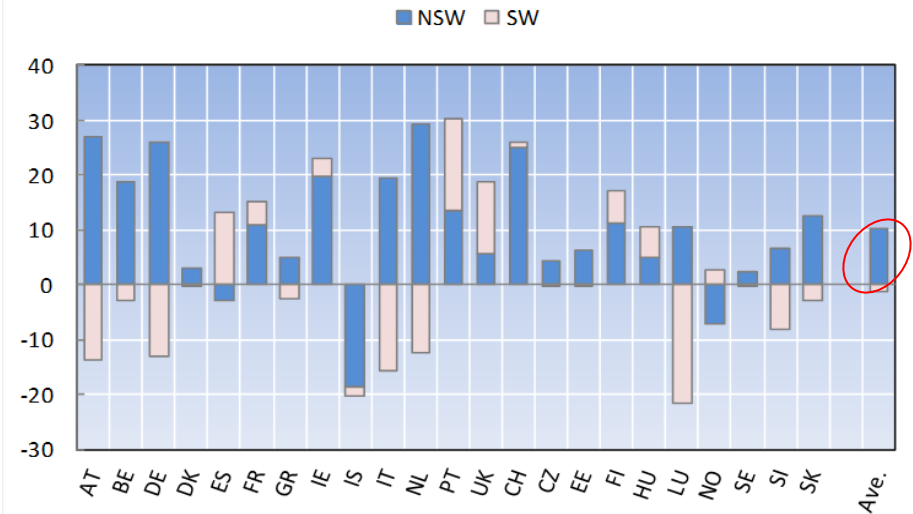


# Non-standard work is the main source of employment growth for low-skill jobs

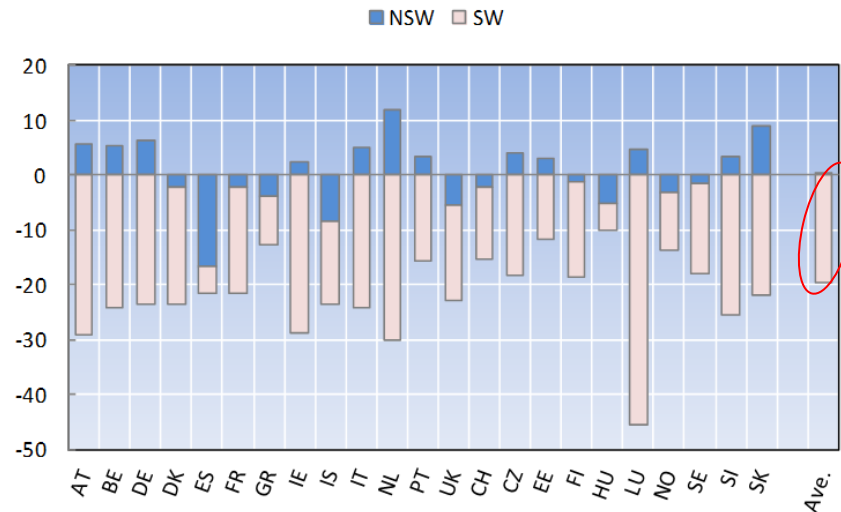
(A) Abstract task



(B) Non-routine manual task



(C) Routine task





# Non-standard employment and inequality

---

## 1. Development and characteristics of non-standard employment

- Factors driving NSW
- Share of NSW and trends in OECD countries
- Is employment growth polarising?

## 2. Labour market prospects of non-standard workers

- Are non-standard workers in low-paid or lower quality jobs?
- “Stepping stones” or “dead ends”?
- NSW and the earnings distribution

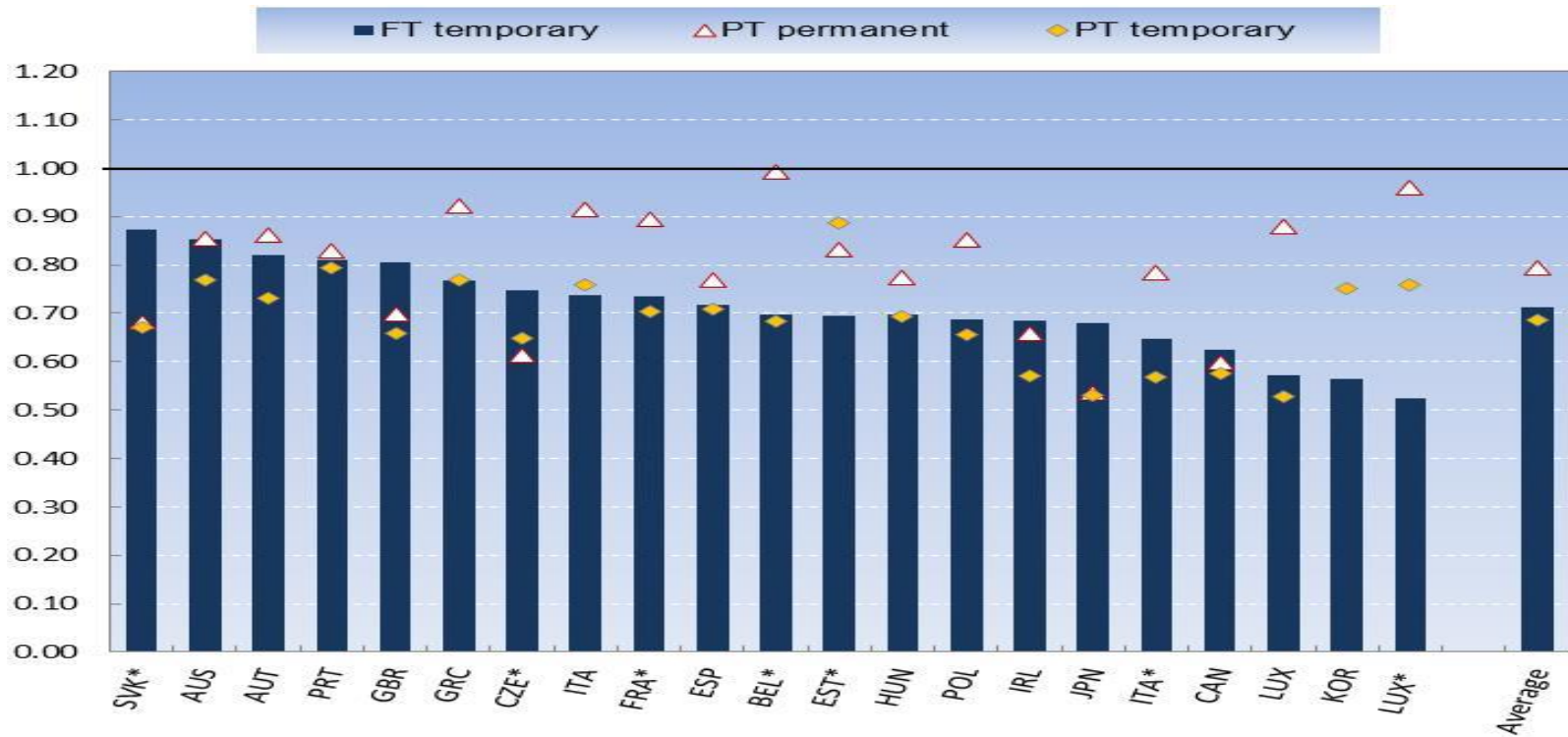
## 3. How does NSW affect household income inequalities and poverty?

- Distributional position of NS workers in household income distribution
- Contribution of NSW sources to income inequality
- Poverty and NSW
- The role of taxes and benefits



# Do atypical jobs pay less?

Ratio of median hourly wages (standard workers = 1), 2012



Source: OECD (2014); EU-SILC; KLIPS for Korea, LFS for Japan, HILDA for Australia and LFS for Canada.



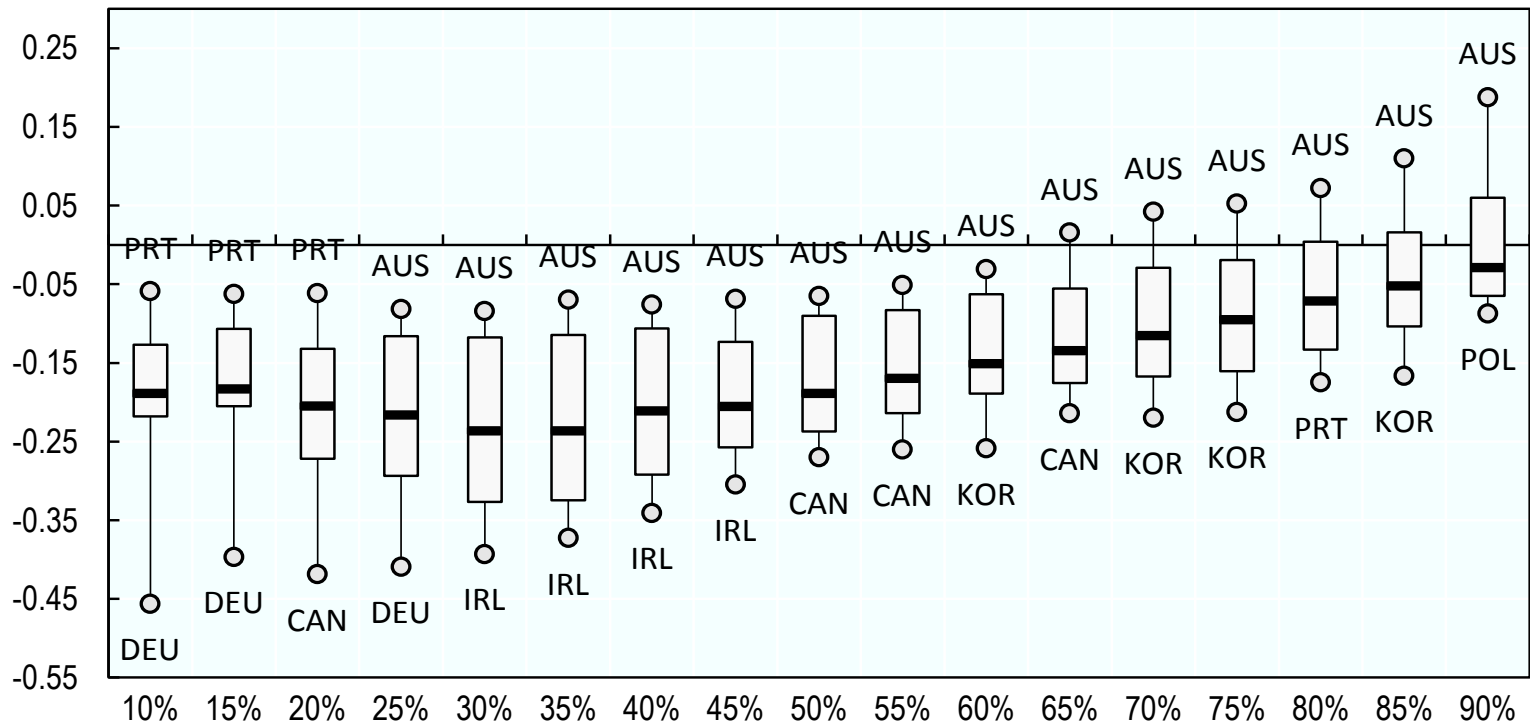
# Is there a wage penalty for NSW, controlling for individual and job characteristics?

---

- Temporary workers face a wage penalty, about 12% controlling for observable characteristics, then 5-8% once unobservables are taken into account
  - The penalty is higher for younger workers.
  - Temporary workers would enjoy higher upward earnings mobility when this is accompanied by a change in the job contract to standard employment.
- For part-time workers
  - in permanent contracts, the penalty is small or a wage *premium* is found in some countries, mainly for women
  - Part-time temporary workers still face some wage, especially men.



# The earnings gap between SW and NSW is larger at the bottom



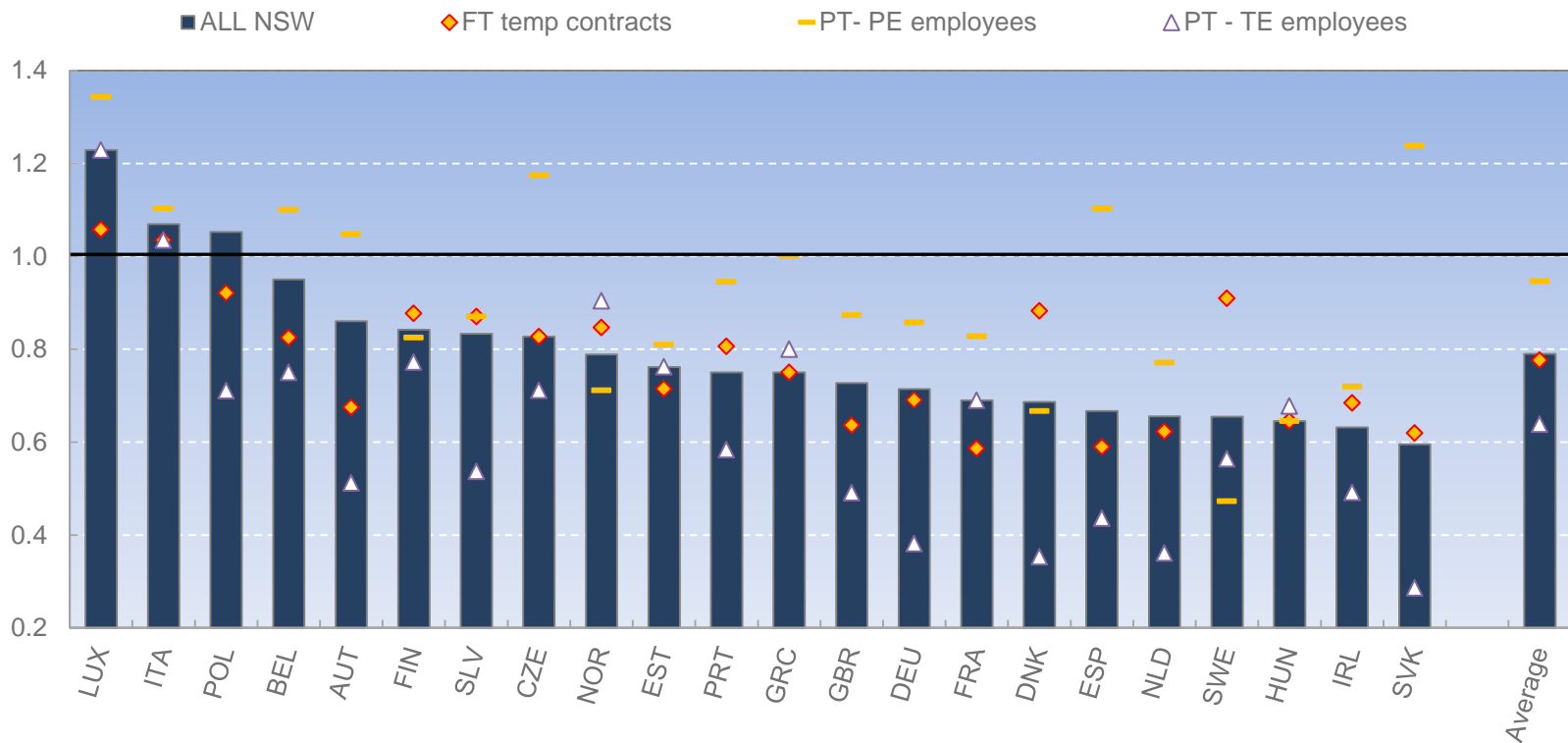
Source: EUSILC (2012), HILDA (2012), KLIPS(2009), Canada LFS (2013).

Note: The box for each quantile represents the interval of the impact of NSW on log hourly wages ranging between 25% and 75% of values, with the black line representing the median impact. The circles represent the country with the highest and lowest impact on wage associated with NSW for each decile.



# Do atypical jobs provide less training?

Ratio of reported answer to undergone training in the past 12 months (standard workers = 1), 2010



Source: OECD (2014); EWCS 2010.



# “Stepping stones or dead ends”: are those in NSW likely to move into standard jobs?

---

- Controlling for characteristics and initial employment status, temporary workers are 12-13 points more likely than the unemployed to be in standard work after one year
- For part-timers, transition rates into standard jobs are higher for those with *permanent* job contracts
- In most countries, self-employed have a lower probability to move into standard work
- Mixed evidence of stepping-stone effect of NSW by workers' characteristics:
  - only prime-age and older temporary workers exhibit higher transition probability into permanent jobs; a stepping-stone effect for young temporary workers (15-29) is generally not confirmed
  - there is little variation in a majority of countries in transition probabilities by skill level (i.e. education).





## Does NSW lead to higher risks of non-employment?

---

- Temporary workers are at higher risk of both unemployment and inactivity than those in SW in  $\frac{3}{4}$  of countries
- Part-timers are more likely than SW to move out of the labour force
- Self-employment is not associated with higher risks of unemployment but risk of inactivity is higher for women in half of the countries



# Non-standard employment and inequality

---

## 1. Development and characteristics of non-standard employment

- Factors driving NSW
- Share of NSW and trends in OECD countries
- Is employment growth polarising?

## 2. Labour market prospects of non-standard workers

- Are non-standard workers in low-paid or lower quality jobs?
- “Stepping stones” or “dead ends”?
- NSW and the earnings distribution

## 3. How does NSW affect household income inequalities and poverty?

- Distributional position of NS workers in household income distribution
- Contribution of NSW sources to income inequality
- Poverty and NSW
- The role of taxes and benefits



# Will the growth in NSW lead to higher income inequality and poverty?

---

An increase in the share of non-standard workers is likely to contribute to increased *individual earnings* dispersion, but the impact on *household income* depends on:

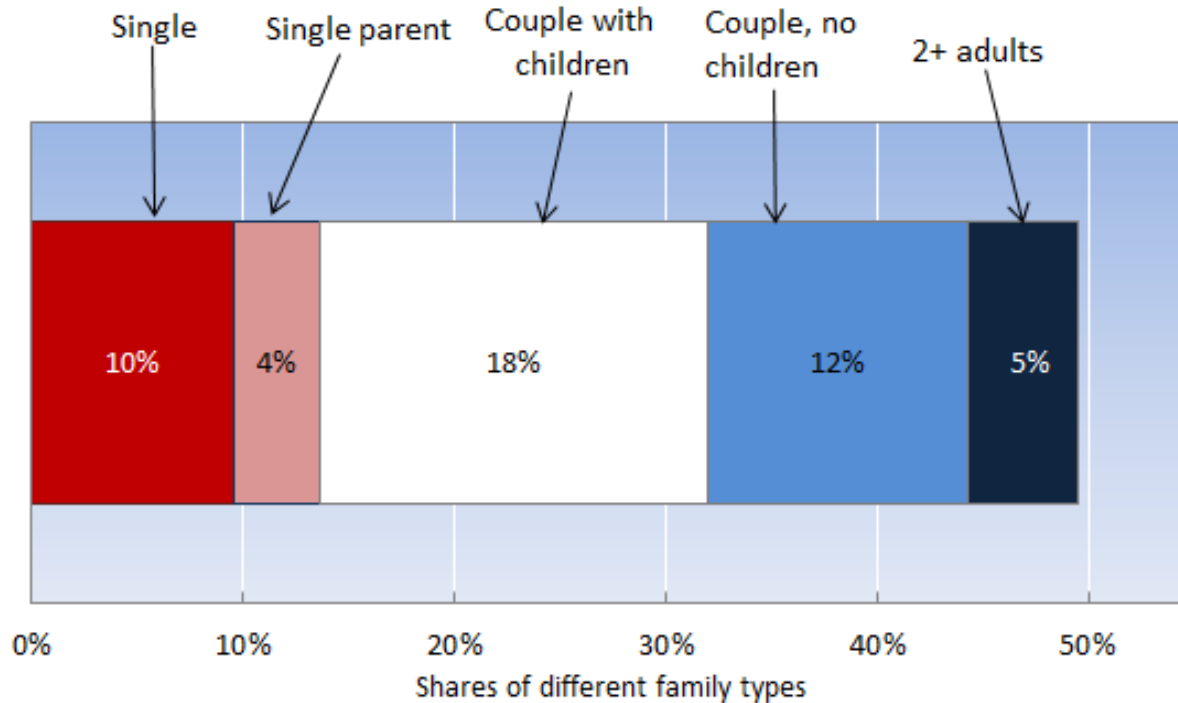
- “Demography”: in which household do NSW live, and are they main or secondary earners
- “Earnings”: what is the contribution from NSW earnings at the household level and how are they distributed
- “Incomes”: what is the position of NSW workers in the overall income distribution and how do different work arrangements affect the risk of poverty



# Many non-standard workers are the main income earner in their household

Half of all non-standard workers are main household earners

**Shares of non-standard workers as main earners , by family type, OECD average 2010**

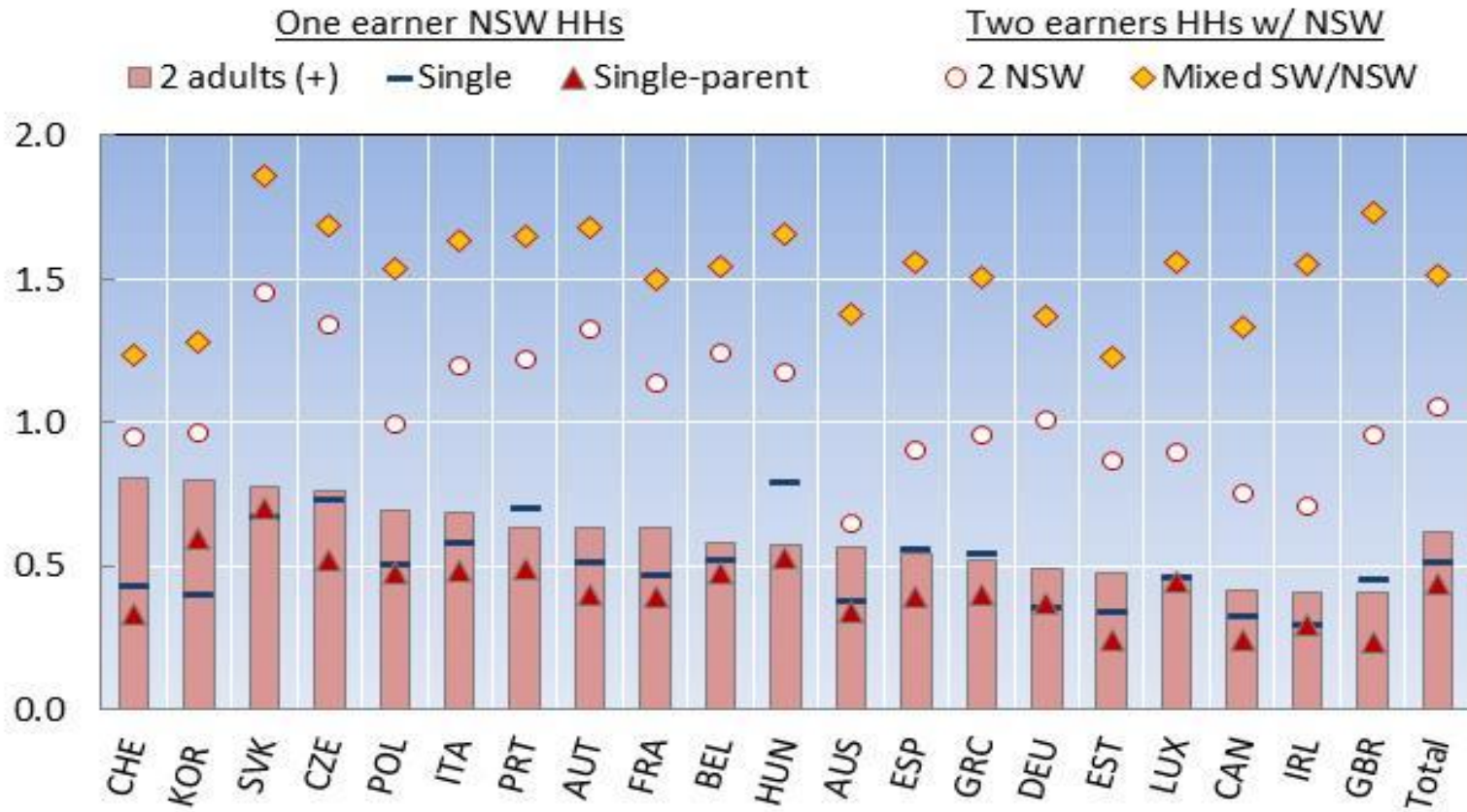


Source: OECD (2014); EU-SILC, KLIPS for Korea, HILDA for Australia and SLID for Canada.



# Households with only non-standard worker(s) earn (much) less

Median earnings ratio (one earner SW households = 1), 2012

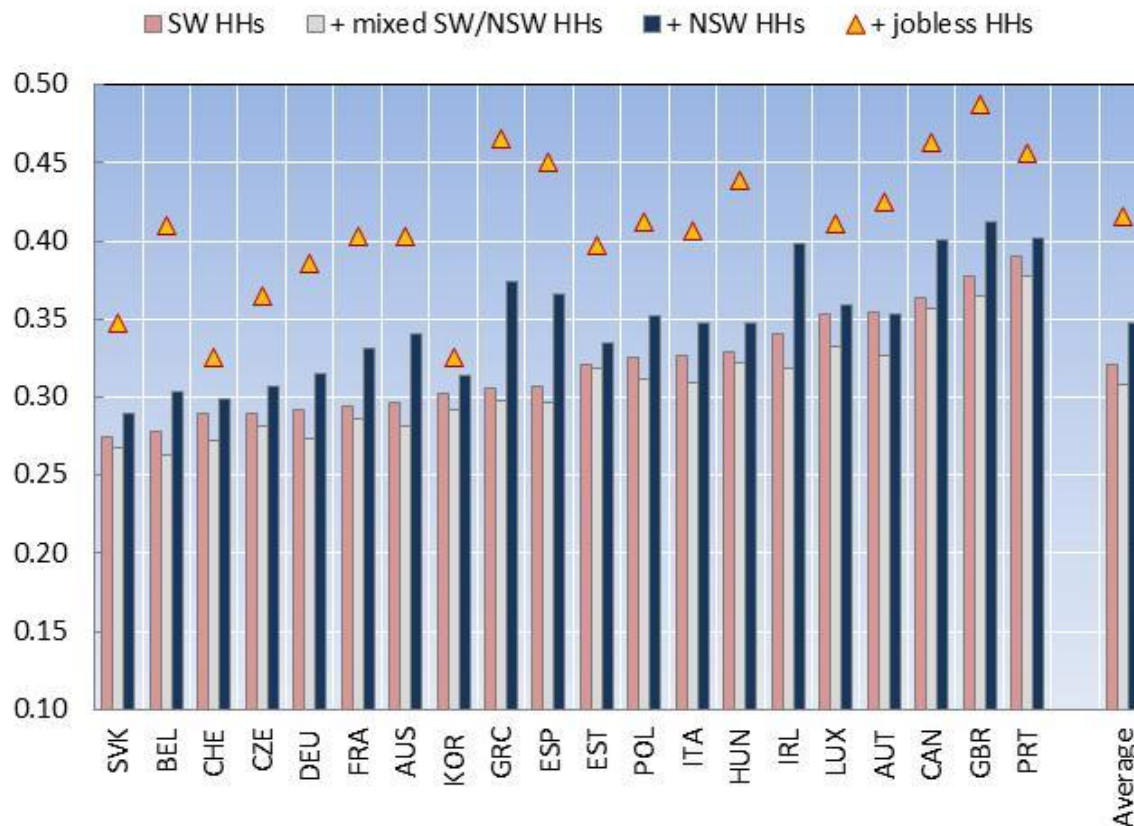


Source: OECD (2014); EU-SILC, HILDA for Australia, KLIPS for Korea and SLID for Canada.



# Household earnings inequality is higher when accounting for households with NSW

Gini coefficient of equivalised household earnings, 2012

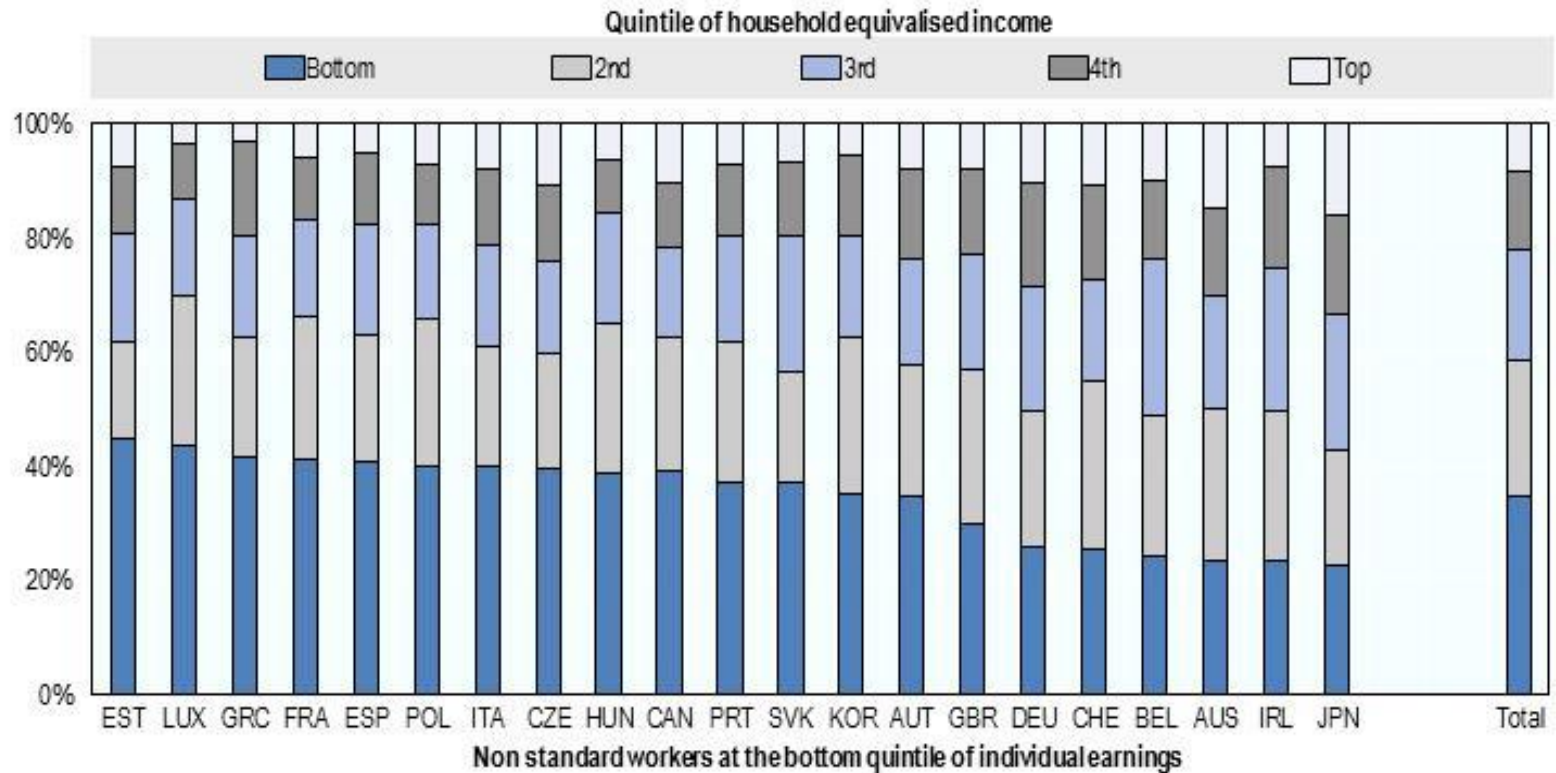


Source: OECD (2014); EU-SILC, HILDA for Australia, KLIPS for Korea and SLID for Canada.



# Low earner NSW not necessarily at the bottom when looking at the household

Distributional position of NSW in household income quintiles, by quintile of individual earnings, 2012

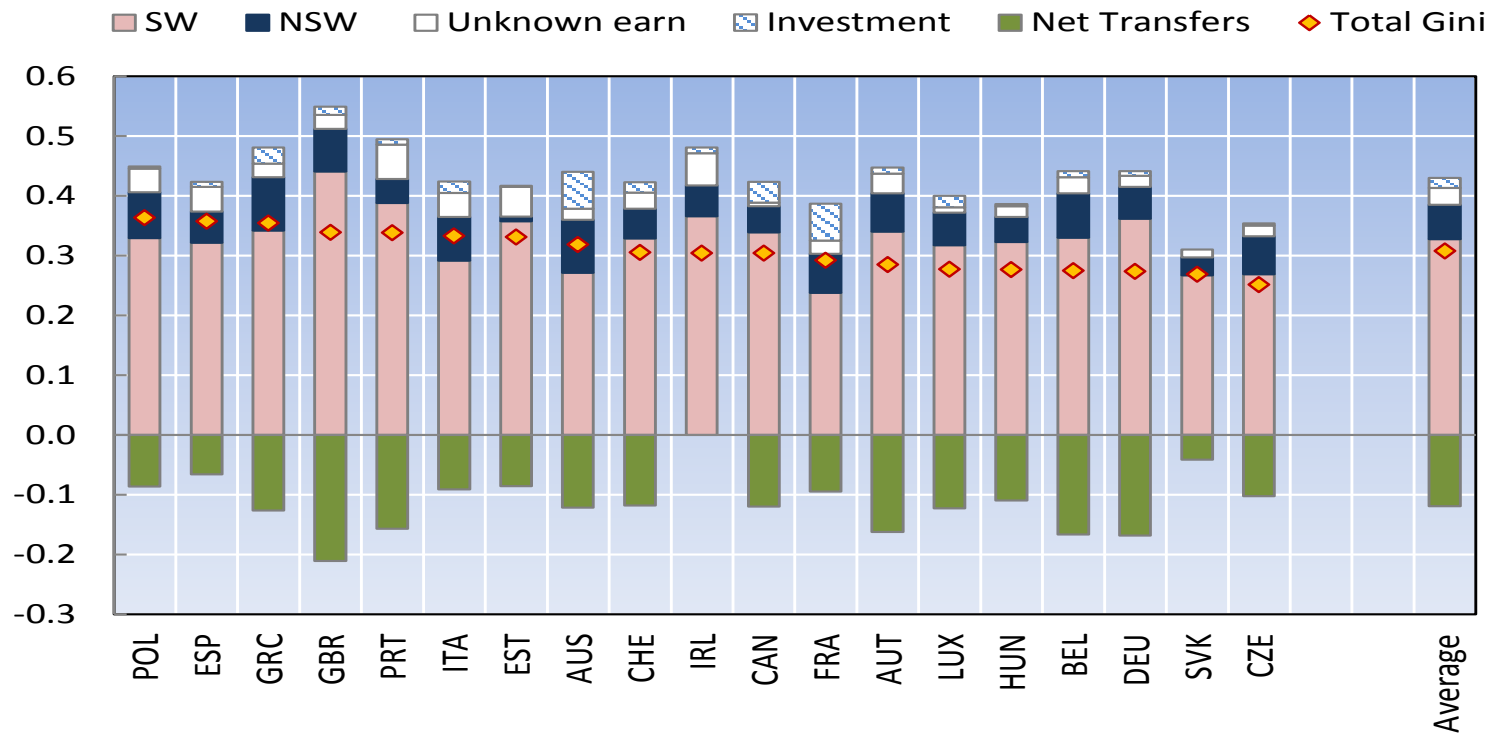


Source: EU-SILC (2012), HILDA (2012), KLIPS (2009), SLID (2010), JHPS (2012).



# A big part of household income inequality still explained by SW

Breakdown of household equivalent income inequality (Gini) by income source, 2012



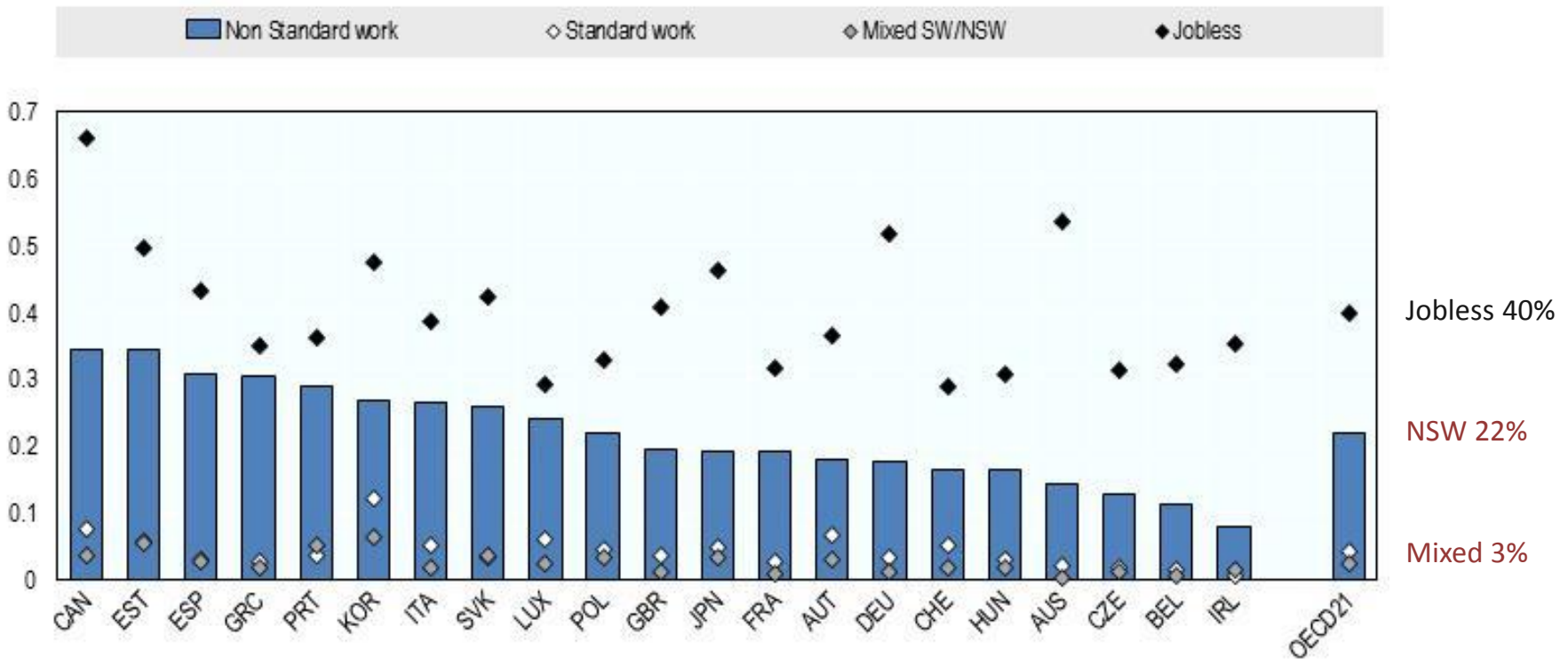
Source: EU-SILC (2012), HILDA (2012), SLID (2010)





# Households with only NSW have much higher poverty rates than those with SW

## Income poverty rates by employment pattern, 2012



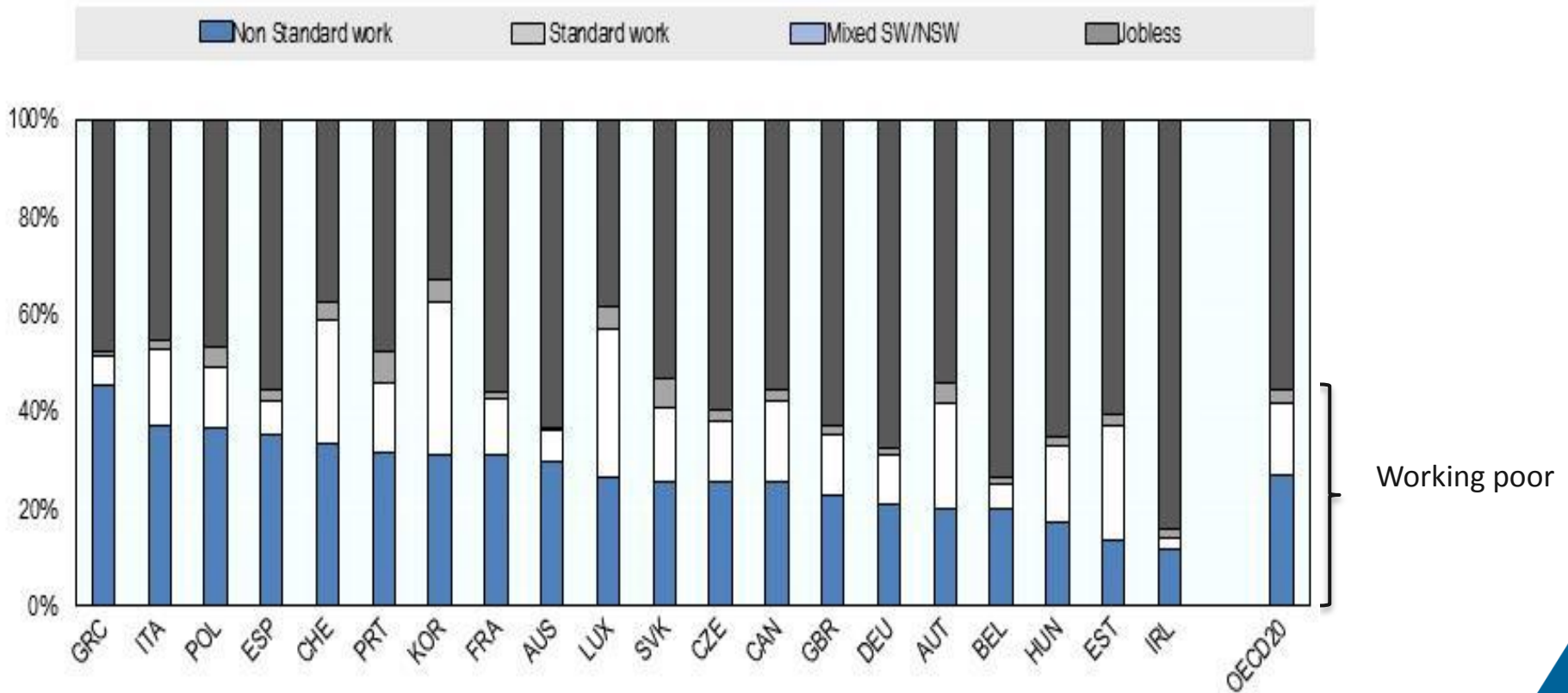
Note: The poverty line is defined at 50% of the median equivalised household income for the entire population.

Source: OECD (2014); EU-SILC, HILDA for Australia, KLIPS for Korea and SLID for Canada.



# Almost one third of the poor and two thirds of the working poor are in NSW households

## Distribution of income poverty by household employment type

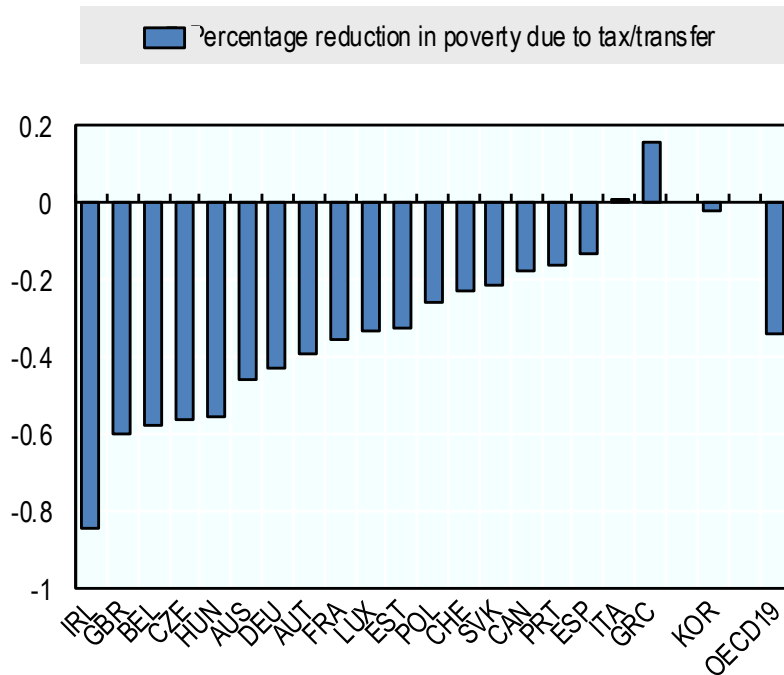


Note: The poverty line is defined at 50% of the median equivalised household income for the entire population.  
Source: OECD (2014); EU-SILC, HILDA for Australia, KLIPS for Korea and SLID for Canada.

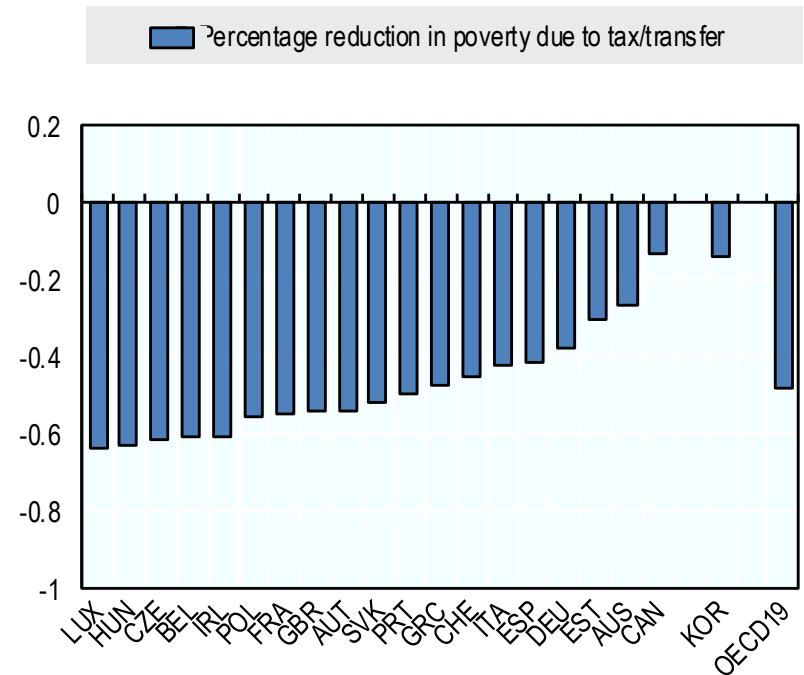


# Taxes and transfers reduce poverty for NSW, but much less than for jobless

Panel A. Non standard worker households



Panel B. Jobless households





## NSW have different entitlements to taxes and benefits, particularly self-employed

---

- There are **statutory differences** to taxes and benefits for workers in **non-standard jobs**, particularly among **self-employed workers**;
- The most common difference is the exclusion of **self-employed** workers to **unemployment benefits** (25 out of the 41 countries). No eligibility to work injury benefits and differences in the rules of sickness and maternity benefits are also common;
- Generally, **self-employed contributions** are **larger than employee** contributions **but lower than** employee and employer contributions **combined**.



Part-time: differences mainly due to circumstances, better protected against poverty than self-employed

---

- Effective differences to **part-time workers** are related more to the **particular circumstances** of these workers (e.g., lower earnings due to lower hours of work) than to structural differences in policy rules;
- **Simulation results** suggest that, in most countries, taxes and benefits **reduce poverty gaps** of workers in non-standard jobs and, under similar circumstances, are **more effective** reducing the poverty gap of **part-time** than of self-employed workers.



## Take away (I)

---

- Employment in non-standard work arrangements has increased over the years and accounts for one third of total employment. 43% of working households include a non-standard worker;
- On some measures of job quality, non-standard workers are worse off than full-time permanent employees. Hourly wages are 20-30% lower, and job insecurity is higher;
- Overall household earnings are also lower when non-standard workers are present , up to 40% lower for households where there are only non-standard earners.



## Take away (II)

---

- “Stepping-stone” effects for non-standard work exist in most countries, but they depend on the type of non-standard work and there are trade-offs involved;
- Temporary workers have a higher transition probability into standard work, compared to the unemployed; but they often face considerable wage penalties, experience greater earnings instability and upward earnings mobility requires a move to standard work;
- Prospects also differ greatly by the characteristics of non-standard workers, with prime-age and older workers facing better chances to use non-standard jobs as “stepping stones”.



## Take away (III)

---

- Earnings from non-standard work are distributed more unequally than earnings from standard jobs;
- Low-earning non-standard workers are likely to be at the bottom of the household *income* distribution, especially if they live with other non-standard rather than with standard workers;
- The risk of poverty is not associated with non-standard work *per se*. 60% of all working poor live in households where all earnings are drawn from non-standard work.