Comments on "Labor Regulation and Temporary Agency Workers" by Alejandro Micco and Pablo Muñoz

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Issues

I. The increase in temporary agency work

II. Measurement of TAW

III. Timing of the reform

IV. Control groups

V. The demand for TAW

VI. Wider issues

Overall assessment

- Evaluation of the effects of a reform in the Chilean regulation on temporary agency work (TAW) in 2006, in the face of its large increase from 2001, meant to level working conditions between agency and regular workers

- Very rich firm-level data set with information on the two types of workers

- Results: (1) Fall in total employment, (2) increase in regular employment, (3) increase in inventories, (4) no change in output or value added

- The results are very interesting, the analysis could be improved and extended

Table 2.1. **Permanent and fixed-term contracts with a temporary employment agency**
Percentage of all employees, average 2006-10

	Permanent contract		Fixed-term contract		Total
	Not with a temporary employment agency	With a temporary employment agency	Not with a temporary employment agency	With a temporary employment agency	
Austria	89.3	1.6	8.8	0.2	
Belgium	91.8	0.0	6.5	1.7	
Czech Republic	90.7	0.8	8.3	0.2	
Denmark	90.4	0.9	8.3	0.4	
Estonia	97.2	0.1	2.6	0.0	
Finland	84.3	0.7	14.6	0.5	
France	85.2	0.0	12.6	2.2	
Germany	83.8	1.6	13.9	0.7	
Greece	88.3	0.2	11.4	0.1	
Hungary	91.5	0.4	7.8	0.3	
Ireland	91.3	0.5	7.9	0.2	
Italy	87.0	0.1	12.5	0.5	
Luxembourg	92.9	0.5	6.2	0.5	
Netherlands	81.6	0.5	15.0	3.0	3.5%
Norway	91.4	0.0	8.4	0.1	
Poland	72.7	0.0	26.7	0.6	
Portugal	76.7	0.7	21.2	1.4	
Slovak Republic	94.3	0.7	4.5	0.5	
Slovenia	82.1	0.5	12.2	5.2	5.7%
Spain	69.1	1.8	27.1	1.9	3.7%
Sweden	82.9	0.7	16.0	0.4	
Switzerland	86.3	0.5	12.9	0.3	
Turkey	88.5	0.0	11.5	0.0	

Note: 2008-10 for Belgium, Finland, Norway and Portugal.
Source: OECD calculations based on EULFS microdata and OECD *Labour Force Statistics Database*, http://dx.doi.org/10.1787/data-00296-en.

Source: OECD Employment Outlook 2013

I. The increase in temporary agency work

TAW went from representing 7% of manufacturing employment in 2001 to 13% in 2006. Why?

- Increasing demand for flexibility (globalization, new technologies, etc.)

- Deregulation of TAW? What happened in other sectors?

- Firing costs: What is the regulation of regular contracts in Chile?

- From (omitted) model: Trends in output volatility or relative cost of TAW?

II. Measurement of TAW
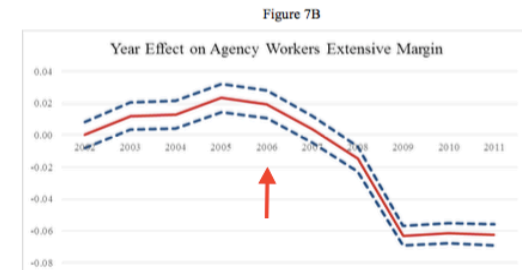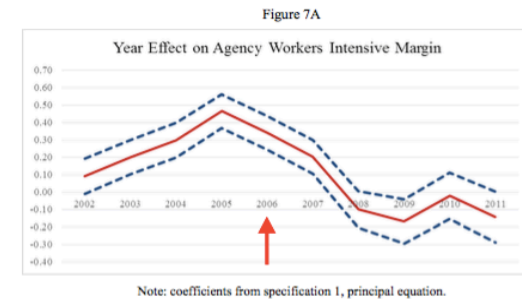
- Measured as a stock? As an average?

  There is no information in the paper. My guess (and hope): It is an average over 4 data points, with changes in definitions (unreported):

  - 2001-2008: No. of workers in 15/2, 15/5, 15/8, 15/11
  - 2009-2010: Average number of workers by quarter
  - 2011: Total number of workers by quarter

- Is employment corrected for the number of hours? Prevalence of part-time may be higher among TAW

III. Timing of the reform

Maybe 2005 should be the pre-reform year: Approved in October 2006 and enforced in January 2007, so 2006 employment may be affected:

- 15/11/2006 employment observation ($\approx$ ¼) is post-approval

- Possible anticipation. Was the regulation unexpected?

- Signs of TAW falling already in 2006 from model estimation results for extensive (whether to hire TAW workers) and intensive (TAW/Regular worker ratio) margins

  (though not statistically significant from 2005 effect)

Figure 7A

Year Effect on Agency Workers Intensive Margin

Note: coefficients from specification 1, principal equation.

Figure 7B

Year Effect on Agency Workers Extensive Margin

IV. Control groups

- All firms are potentially treated

  - Ideally we would want to use as controls similar firms that were not allowed to use TAW before 2007
  - Instead, firms not using TAW in 2006 are used as controls

- Full sample:

  Common trend? Since 2003/2004 regular employment, total employment, and output grew more in TAW-users in 2006 than in TAW-non users

V. The demand for TAW

Potential determinants:

- Uncertainty (volatility) v. peak loads (not necessarily unanticipated): e.g. overtime pay

- TAW v. in-house temporary jobs (regulation)

- Search and screening cost v. imperfect selection by agency

- Agency-provided training (D. Autor, *QJE*, 2001)

- Technology and firm-specific human capital: Some tasks may be easier to provide/supplement by TAW than others
  - TAW concentrated in low-skill jobs (D. Autor and S. Houseman, *AEJ: Applied Economics*, 2010)

IV. Control groups

Selected sample:

TAW-non users with similar probability of using TAW according to 1:1 p-score matching (13 variables?)

- Show tests of balancing across covariates

- Given sample size (9,042) could possibly use more variables in p-score matching, e.g. workforce composition (see below)

- Total employment grew more in 2006 TAW-users since 2004 (Table V), but no ex-ante difference in output or value added
  - Presumably taking advantage of lower wages
    (Cost of TAW/Wage of regular workers = 0.63 in 2006)
  - TAW have lower productivity too
    –> Different characteristics?

V. The demand for TAW

- ENIA data set provides a breakdown of TAW by occupation:
  - Specialized in the productive process
  - Non-specialized in the productive process
  - Auxiliary activities
  - Administration
  - Personal services and security (excluded?)
  - Salespeople

So:

- What are the TAW ratios by occupation?

- Control for ex-ante occupation structure in selected sample

- How was employment in different occupations affected by the new regulation?

VI. Wider issues

- US evidence (D. Autor and S. Houseman, *Focus*, 2002): "secondary labor market", "self- selection", and "stepping stone" viewpoints

- Europe (duality): Though TAW and contracted temporary jobs are not the same, the latter affect wage flexibility, worker career paths, provision of training, employment volatility, accidents at work, etc. (T. Boeri, "Institutional Reforms and Dualism in European Labor Markets", in O. Ashenfelter and D. Card (eds.), *Handbook of Labor Economics*, vol. 4B, 2010) -> Possibly similar for TAW

- M. Helm: "The Temporary Help Service Industry and the Macro Economy", EUI thesis, 2014, has a Mortensen-Pissarides search model with TAW