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Does temporary employment affect the work-related training of low-skilled employees?

Similar to other European countries, the use of fixed-term contracts in Germany has been deregulated since the 1980s. Though temporary employment can be seen as a possibility to re-enter the labour market, it is argued that temporary employment may lead to “dead-ends” and to lower investments in further training.

This study analyses whether the use of temporary contracts does indeed have an effect on participation in further training. We focus on low-skilled employees for two reasons: first, public discussion often focuses on this group; second, low-skilled and unskilled employees are faced on average by more and longer unemployment spells. In addition, their labour market situation has worsened over the last few years. Temporary employment is therefore especially relevant for this group.

According to the human capital theory of Becker, which differentiates between general and firm-specific human capital, lower investments in firm-specific human capital are expected for employees with temporary contracts because employers cannot reap the benefits from these investments. In contrast, the amortisation period of general human capital is not affected by the use of temporary contracts, because the employee’s productivity is increased in any firm. While employees with temporary contracts have the same incentive to invest as they would with a permanent contract, firms should invest less in the human capital of temporary employees.

If investments in further training were lowered due to the use of temporary contracts, the labour market situation of low-skilled employees would deteriorate. More recent theories of human capital show, however, that the incentive to invest has not to be affected negatively: here, investments in human capital are seen as an instrument to decrease information asymmetries between employer and employee. From a theoretical perspective, it is thus not clear whether the use of temporary contracts leads to lower or higher investments in human capital. The size of the “net effect” is not known a-priori.

We use the German *Mikrozensus*, wave 2004, for our empirical analysis. The *Mikrozensus* is a representative repeated cross-section for Germany. It contains a great deal of information about the economic and social position of each respondent. Besides information about labour market participation, the *Mikrozensus* also gathers information about qualifications and further training. For the purpose of our study, we use all respondents who are in dependent employment. We exclude self-employed individuals, individuals in initial vocational training, and all non-working respondents. In order to analyse the participation in further training for low-skilled employees, the sample is further restricted to employees in low-skilled jobs. In order to take systematic differences between temporary and permanent employees into account, we estimate a bivariate probit model for whether fixed-term employment affects participation in work-related training.

The descriptive results show that the share of (further) training participants among individuals in low-skilled jobs is relatively low, both for individuals in temporary employment and for those in permanent employment. This share varies, however, with other employment- and firm-specific characteristics.

These potential determinants of training are also analysed in our analysis. The results are in line with the results from previous empirical studies on the determinants of participation in further training. An exception is the effect of atypical employment relationships, namely temporary contracts, part-time contracts, and marginal employment. Though classical human capital theory predicts lower investments for employees with atypical contracts, we find this result only for part-time work and marginal employment. Employees with temporary contracts have no significant difference in training participation compared to employees with permanent contracts.

We therefore conclude that holding a temporary contract does not have systematic disadvantages in access to further training. The use of temporary contracts does not therefore worsen the situation of low-skilled employees in terms of their human capital accumulation.