



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Zero hours contracts and labour market policy

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*\* ECB, DG Economics, Supply side labour and surveillance. Views expressed are mine alone.*

# 1. Summary of the paper

## Research questions (s):

- Characterise Zero Hours Contracts (ZHC).
- Analyse the link between the inception of the National Living Wage (NLW) in the UK and the evolution of ZHC.

## Data and empirical strategy:

- Four types of data: UK - LFS; LSE - CEP Survey of Alternative Working Arrangements; National Minimum Wage Dataset for Social Care; the Care Quality Commission registry.
- General description of the ZHC.
- Impact of NLW on the share of ZHC at firm level in the sectors care homes and domiciliary care agencies. And effect of the NLW on the probability of being on ZHC.
- Structural equation:  $\Delta Y_{j,t} = \alpha_1 + \beta_1 \Delta \ln W_{i,t} + X'_{j,t-1} \gamma_1 + \varepsilon_{j,t}$
- First stage:  $\Delta \ln W_{j,t} = \alpha_2 + \beta_2 \text{MIN}_{i,t-1} + X'_{j,t-1} \gamma_2 + \varphi_{j,t}$
- Probability of ZHC post NLW:  $ZHC_{i,t} = \alpha_3 + \beta_3 \text{PostNLW}_t + X'_{i,t} \gamma_3 + \mu_{j,t}$

# 1. Summary of the paper (cont.)

## Findings:

On the characteristics of ZHC:

- Some workers not only face lower income security as they are less-well paid.  
**Could the heterogeneity of the results be further explored to better characterise individuals on zero hour contracts and disentangling between demand and supply forces?**

On the link between the ZHC and the NLW:

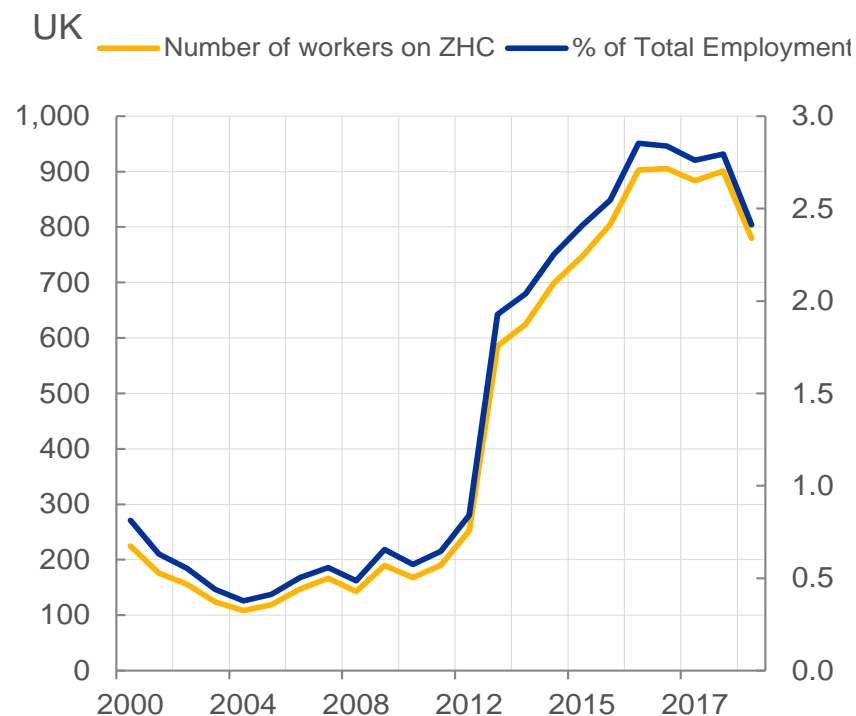
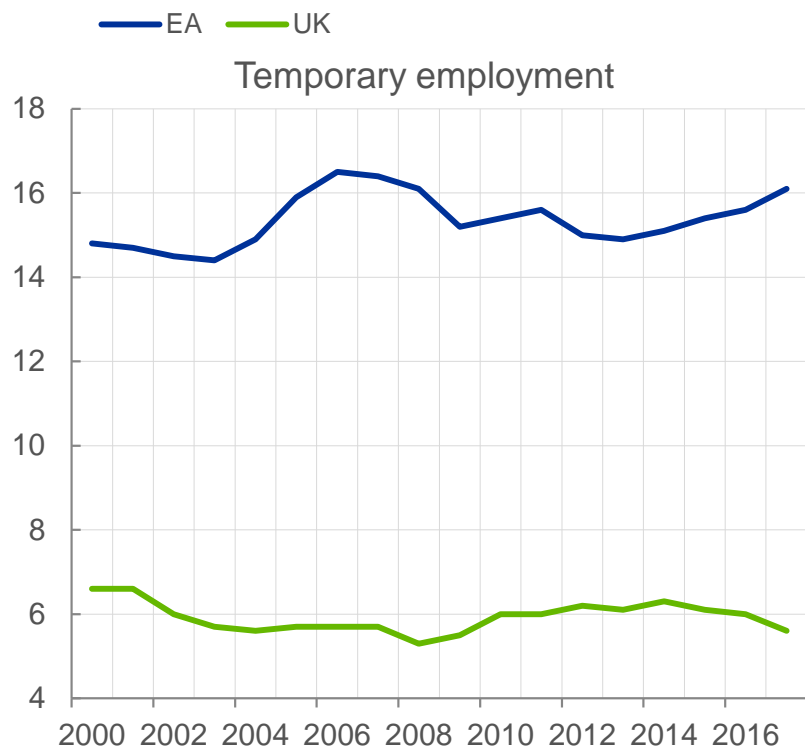
- In the domiciliary care sector the increase in the minimum wage is associated with an increase in the share of ZHC contracts.
- Using the LFS, the probability of being on a ZHC in the social care sector increased. The association appears generalised in low paying industries.
- (important difference between types of firms in the adult care sector: Domiciliary care sector firms have on average 36% of workers on ZHC, while care homes have only 5%.)

## 2. Discussion – research question(s)

- ZHC fall under the umbrella of atypical forms of employment.
- One can distinguish between atypical forms of work (which include fixed-term, part-time and temporary agency work) and very atypical contractual arrangements (which include very short fixed-term work of less than six months, very short part-time work of less than 10 hours a week, non-contract work and zero hours or on-call work).
- The increase in atypical forms of employment has led to policy developments in order to increase workers' protection in the EU. For instance, the proposal for a Directive on Transparent and Predictable Working Conditions by the European Commission.
- Among other things the proposal aims to: limit to the length of probationary periods; ban exclusivity clauses and establish limits on incompatibility clauses; ensure workers know in a reasonable period in advance when work will take place.

## 2. Discussion - research question(s) (cont.)

- ZHC contracts are an important policy relevant question that features prominently in the UK debates. Some policy intervention has already taken place to regulate their use, including the removal of exclusivity clauses.
- But, ZHC are a relatively low share of employment. **Have ZHC already peaked?**  
**Can a ZHC be on a permanent contract?**



Source: Eurostat and Office for National Statistics.

## 2. Discussion - research question(s) (cont.)

- The second policy relevant question in this paper is the impact of the minimum wage on the labour market outcomes. There are many different studies and types of results:
  - Overall, the impact of the minimum wage on employment is not univocal; the initial level of the minimum wage relative to average and median wages matter. Nonetheless, there are consistent evidence of negative employment effects especially among the young and higher chances of job losses among those close to the minimum wage.
  - Quality of jobs: minimum wage affects agents' behaviour – firms create more productive jobs and workers invest in human capital more [e.g. Acemoglu (2001) and Cahuc and Michel (1996)].
- In this paper, authors show that the minimum wage can have a negative effect on the quality of jobs (as measured by contract type). There is no contradiction with relevant economic theory. First, a possible impact of the minimum wage on job quality may take time to materialise. Second, the focus of this paper is on a very specific sector, labour intensive and with regulated prices. **[Question: have the regulated fees in the adult care sector been adjusted to account for the increase in the minimum wage?]**

## 2. Discussion – empirical strategy and findings

- Variation in the share of ZHC between March 2016 and March 2017 explained by the change in the natural logarithm of the average wage at firm  $j$  plus other controls
- Because of the potential endogeneity the wage change is instrumented by the share of workers in the firm earning less than the NLW in March 2016.
- The first stage regression shows that this instrument explains the change in wages in that period and that that change is due to the minimum wage.
- **But, is it reasonable to assume that the proportion of workers paid below the NLW affect the change in the share of ZHC only through its impact on wage growth and not directly?**
- On the binary specification with LFS data, is it possible to establish causality under the current specification? **Could the post NLW be picking up the effect of an upward trend in ZHC? Have regressions been estimated for other time periods?**
- **Have estimations been carried for those under 25 years old?**
- **Has there been a decline in the number of hours worked in these two sectors in the period from March 2016 to March 2017?**

### 3. Concluding remarks

- Empirical relevant contribution that sheds light into the ZHC and how minimum wages can affect the nature of employment in some sectors.
- Labour market policy interventions can have unintended consequences.
- From a macroeconomic viewpoint there are various dimensions to consider regarding atypical employment:
  - Employment, productivity, inequality.
  - Stepping stone jobs vs dead ends?
  - Uncertain income vs fixed financial commitments - implications for consumption, investing decisions, lifetime earnings, demographics, etc.
- From a labour market policy perspective:
  - Regulation of working hours, minimum wage, collective bargaining, employment protection legislation; social benefits system, labour inspectorate, ALMPs and on-the-job training, etc.
- Atypical jobs such as ZHC are still a small share of total employment and as shown in this paper part of it is driven by supply and demand.
- However, labour market policy will need to be ready to adapt to developments such as those of the gig economy platforms (the use of digital technologies to intermediate labour on a per task basis).