Introduction

While labour market segmentation (LMS) has been researched from the perspectives of different branches of literature, it nevertheless remains vague as a concept. It emerged as an alternative to neoclassical economics and human capital theories, which assume that wages and working conditions generally depend on the worker’s human capital and productivity level. Instead, LMS theory maintains that differences in working conditions between groups of workers may also be due to factors such as contractual arrangements or other institutional characteristics.

Policy context

- LMS is typically mentioned when discussing the consequences of the ‘reforms at the margin’ (or two-tier reforms) of the 1980s – reforms in employment protection legislation (EPL) which eased the use of temporary contracts while leaving the regulation of permanent employment largely unchanged. These reforms may have created more jobs, but they also resulted in a growing stock of labour market ‘outsiders’ among those in employment.
- The policy debate on LMS within the EU is linked to this expansion of temporary contracts in some Member States and its consequences: some people enjoy stable and secure careers with better wages and development prospects, while others are trapped in employment relationships characterised by instability, uncertainty and unfavourable working conditions.

Key findings

- This report understands LMS as a labour market situation with three concurring conditions: a division of the labour force into two or more segments; differences in working conditions that cannot be attributed only to differences in workers’ productivity; and limited mobility between segments.
- The report combines a quantitative empirical analysis with a policy analysis. Both follow the above concept of LMS and take a broader perspective than that found in most existing approaches to the topic by looking beyond the type of contract and EPL as key dimensions of LMS. The overall approach is exploratory and illustrative. The in-depth analyses were conducted in France, Germany, Spain and the United Kingdom (UK).

Empirical analysis

The empirical analysis adopts a longitudinal perspective and classifies individuals into groups depending on how their trajectories develop over time. Key results are as follows.

- Standard open-ended contracts represent the most prevalent employment relationship across the four countries, and over a two-year period workers are most likely to remain in the same labour market state. Nevertheless, clear divergences emerge between the selected countries.
- Germany seems characterised by a less mobile labour market with fewer flows and with high upward mobility and relatively low downward mobility.
- The UK is the most flexible labour market, and upward and downward mobility are stronger than in the other countries, but seem equally important.
- Spain is a relatively mobile labour market, but with the most worrisome patterns in terms of LMS: upward labour mobility is limited and typically takes place among those workers who already enjoy a better labour market state, while risks of downward mobility are high and concentrated among those experiencing poorer working conditions, especially during the economic crisis (among them, transitions of temporary employees into unemployment).
France, like Spain, is characterised by a high incidence of non-standard employment and quite low transition rates into standard forms of employment. Information on transition rates point to the challenge posed by a significant number of temporary employees who are trapped, failing to move to permanent contracts and experiencing (relatively long) unemployment spells which may result in scarring effects.

The analysis identifies four labour market trajectory groups in each country: two belonging to the upper segment, where careers are characterised by employment in the best conditions or a very short upward transition to attain such status, and two belonging to the lower labour market segment, where careers are characterised by a higher incidence of non-standard forms with unfavourable employment conditions and also unemployment or inactivity, and typically higher job turnover.

Lower-educated people, younger people, immigrants and women are most likely to have careers further away from the standard trajectories and fewer opportunities to progress in the labour market. Moreover, a standard career is more likely to take place in large firms and in sectors such as public administration and higher added-value services (financial, real estate), while lower added-value service activities (commerce and hospitality, administrative services) have a stronger relative weight among the bottom career trajectory groups.

**Policy analysis**

The policy analysis explores how measures adopted in the above countries, beyond the EPL type, can reduce LMS by encouraging upward transitions, preventing involuntary downward mobility or narrowing the gap in working conditions between upper and lower labour market segments. Key results are as follows.

- Tailored active labour market policies (ALMPs) can encourage upward transitions by enabling individuals to access the labour market and by incentivising employers to take on and retain disadvantaged workers. The effectiveness of ALMPs depends on their flexibility in content, individualised provision and good management.
- Assisted contracts (common in France and Spain) can reduce LMS if they are aligned with business cycles, EPL provisions and vocational education and training (VET) policies, especially when financial support is reserved for permanent hires, conversion of temporary into permanent contracts or employee retention.
- Promoting self-employment helps to combat LMS if, in the long run, it results in transitions from unemployment into stable and secure employment rather than inflows into precarious jobs. The lack of proper targeting and safeguards may lead to substitution of standard employment with less stable/bogus self-employment.
- Minimum wage regulations may reduce LMS by lifting working conditions in lower segments closer to the ones in higher segments.
- VET policies can facilitate income increases and upward transitions into stable employment by providing workers with qualifications aligned with labour market needs, especially if such policies are tailored and incentivise transitions after training.
- Tailored family policies can prevent LMS among women who are exposed to it and are strongly influenced by cultural and contextual factors and other existing benefits schemes.

**Policy pointers**

- A combination of data-driven and policy-based approaches are needed to fully capture LMS.
- For the adequate study of LMS in the future, understanding of this phenomenon should be aligned in academic and policy debates.
- Adequate data are needed for relevant empirical analyses of LMS in Europe: good, comparable and accessible longitudinal data, also covering labour demand-side variables and matched employer–employee data at the individual level.
- Effective policy should not only address barriers to access the upper labour market segments but also consider downward mobility and differences in working conditions. A broader policy approach, beyond EPL reforms, is encouraged.
- Understanding how different groups are affected is fundamental for policy action, as blanket solutions to a heterogeneous segment are unlikely to effectively reach all vulnerable groups.
- As the impacts of individual policies are very limited, integrated context-sensitive approaches combining financial incentives, regulation, monitoring and improving access to quality public services should be fostered to combat LMS.

**Further information**

The report *Labour market segmentation: Piloting new empirical and policy analyses* is available at [http://eurofound.link/ef19033](http://eurofound.link/ef19033)

Research manager: Irene Mandl

information@eurofound.europa.eu