

FOCUS · Productivity and job quality

Low growth in productivity¹ is a common problem in the euro area as a whole but is particularly important in the periphery countries.² In the case of Spain, productivity fell continuously over the period 2000-2014 with an average annual reduction of 0.7% while in countries such as Germany productivity grew by 0.5% annually over the same period. So what lies behind such disparity?

There are many different factors that determine the evolution of productivity, including aspects as varied as technology, demographics, the degree of market competition and the quality of labour market institutions, among others. In this Focus we will look at one of these elements: employment conditions. The different ways that the employment relationship can affect productivity has been examined extensively by the academic literature. For example, a stable, long-lasting employment relationship encourages company investment in training and the accumulation of human capital and effort on the part of employees.³ In fact, if we classify different sectors of activity into three groups according to their growth in productivity between the years 2000 and 2009 (the latest figures available at a sector level), we can see a negative relationship between the share of temporary employment and the growth in productivity, both in Germany and Spain (see the first graph).⁴ However, in Spain this temporary nature of employment is more accentuated in all activity sectors, resulting in a worse trend in productivity at an aggregate level.

These problems in Spain's labour market are not only visible at high levels of temporary employment as there are other aspects of the employment relationship related to job quality which can also affect growth in productivity.⁵ As can be seen in the second graph, involuntary part-time employment is higher in those sectors with less growth in productivity. In these sectors, the percentage of employees who would like to work more hours is 14.6% compared with 9% in sectors with average or high growth in productivity. Moreover, the

percentage of workers receiving non-official training from the company is much lower in those sectors with low productivity growth, showing that less investment in specific human capital tends to be associated with less professional development of employees and ultimately lower growth in productivity. Lastly, it should also be noted that the problem of over-qualification, which affects 16% of workers, does not seem to be greater in low productivity sectors.

It therefore seems clear that job quality is higher in those sectors where productivity has grown the most. Taking into account the fact that an economy's productivity is the only source of real GDP growth per capita in the long term, any improvement in well-being therefore depends on solving the problems affecting the labour market. Good quality jobs and productivity are an inseparable duo.

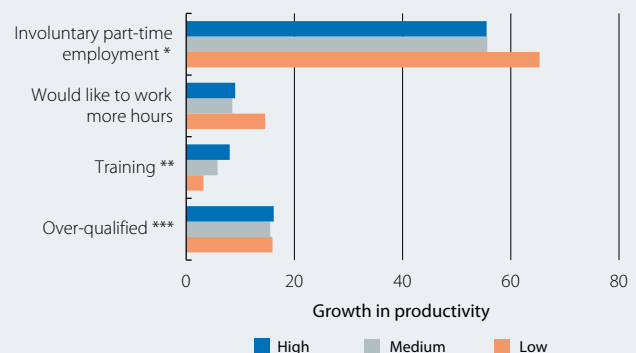
Share of temporary employment and productivity by sector

Temporary employment (% of total employment)



Note: Share of temporary employment in 2015. The 17 activity sectors are classified into three groups according to growth in productivity (TFP) between 2000 and 2009.
Source: CaixaBank Research, based on data from Eurostat and the EU KLEMS.

Productivity and job quality (% of total employment)



Notes: Data for 2016 Q3. The 17 activity sectors are classified into three groups according to growth in productivity (TFP) between 2000 and 2009. * Percentage of all workers employed part-time. ** Percentage of workers receiving non-official training from the company; data from 2014. *** Percentage of workers with higher qualifications who carry out tasks requiring medium or low qualifications.

Source: CaixaBank Research, based on data from the INE (LFS) and EU KLEMS.

1. In this article, productivity refers to the total factor productivity (TFP), calculated as the difference between an economy's growth and the contribution made to this growth by the labour factor and the capital factor.

2. See the Focus «Why is the euro area growing less than the US?» in MR12/2015.

3. For a more detailed description of these ways, see the Focus «How does the type of employment contract affect productivity?» in MR03/2016.

4. The same results are obtained when the impact of temporary employment is estimated on the TFP in a regression using annual data from 2000 to 2009 and with sector and time controls.

5. The dimensions chosen to estimate job quality are explained in the Focus «Job quality: Spain within the international context» published in MR11/2016.