

THE CONTINGENT WORKFORCE

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ABSTRACT

The perceived increase in the use of contingent work arrangements, such as consulting, contracting, and temporary employment, has led to the concern of the creation of a disposable workforce. Both the employment instability and poor compensation packages thought to be associated with these work forms cause these work forms to be viewed unfavorably by many. One might wonder why workers would rationally select such employment given these concerns. Exploiting a large and nationally representative dataset, the Current Population Survey (CPS), we explore not only the prevalence of these employment arrangements, but also a worker's decision to engage in these work forms. The analysis of the 1995 to 2001 rounds of the CPS would suggest that the proportion of the United States labor force engaged in contingent employment has actually decreased. Furthermore, given that more than sixty percent of contingent workers volunteer personal reasons as to why they selected such employment the suggestion is that workers are voluntarily seeking contingent employment out.

INTRODUCTION

During the mid to late 1990s, American labor markets saw a dramatic restructuring. Increased use of flexible staffing arrangements, induced by increased global competition and changing worker preferences, has led to an increase in the popularity of such contingent work arrangements (CWAs) such as consulting, contract, and temporary work. Many do not view the increased use of CWAs, however, as being a positive economic development. The lack of both legal and wage benefits that are thought to be implied with such employment has fueled concerns of the creation of a disposable workforce within U.S. labor markets. In short, the terms "bad jobs" and

"contingent employment" have become synonymous terms in the popular media.

This paper seeks to achieve two primary goals. The first contribution made by this paper is to provide a sense of precisely what constitutes contingent employment. Although this form of employment is not a new feature of the labor market, the term "contingent" itself is still a relatively ambiguous term. The second aim of this paper is to not only quantify the role played by such employment in the American labor markets, but also to evaluate the rationale behind a worker's selection of employment in these work forms. To this end, we exploit data contained in the Current Population Survey (CPS). This dataset is particularly attractive in that not only does it have a large number of observations, but it also elicits from workers the primary reason why they chose contingent employment.

The structure of this paper is as follows. After this brief introduction, we more formally discuss the forms of employment which are commonly considered to be contingent. After the discussion of the CPS data exploited by this analysis contained in Section Three, we provide the results of our tabulations in Section Four. Concluding remarks can be found in our final section.

CONTINGENT WORK DEFINED

The underlying difference between a contingent and regular worker is in the lack of either an explicit or implicit guarantee of continued employment. Put succinctly, a contingent worker has no reasonable expectation of remaining with their employer for more than one year holding economic conditions constant. A common convention in the literature has five distinct work arrangements falling under this contingent umbrella.¹ The first four of these work arrangements are agency temporary, direct-hire temporary, oncall work, and contract work. The fifth and final work form, independent contracting/consulting work, is also considered to be contingent given that it, too, fails to offer workers any firm guarantee of continued employment.

We define agency temporary workers as those who rely on a temporary help service to secure their job-task or who received a paycheck from such an agency.² Direct-hire temporaries are those temporary workers who eschew this third-party's assistance and provide their services directly to the paycheck-issuing entity. Furthermore, these workers are those who indicate that they were hired directly by a firm to fill a temporary position, complete a specific job-task, or serve as a substitute for an absent or vacationing employee. Direct-hire temporaries are also those workers hired by a firm for only a fixed period of time or into positions that are seasonal in nature. Oncall workers work for a firm on a per-diem or as-needed basis. We fold day laborers into this oncall classification.

Contract workers differ from their contractors/consultant counterparts in that they, like their temporary agency counterparts, rely on a third party to provide them with the necessary clients or projects. We impose additional restrictions on this category. Namely, contract workers are those who have only one client and usually work at that client's workplace. The final CWA is contracting/consulting work. Akin to direct-hire temporaries, these workers are responsible for the acquisition of clients or projects. The key distinction between this work form and direct-hire temporaries is that former is responsible for any incurred tax liabilities, whereas the latter category relies on their client to satisfy U.S. tax laws.

Given that we have broken down the contingent workforce into five distinct categories, we include a final worker category. That is to say, we include a final category of regular workers who are found in the entire non-farm (employed) workforce. This sixth category consists of those workers who do not identify themselves as being engaged in any of the above five contingent arrangements. Put differently, this classification includes those workers who are employed in an open-ended arrangement.

DATA

The Bureau of Labor Statistics (BLS) assists research into CWAs through an ongoing supplement to the Current Population Survey (CPS) which collects data from contingent workers. Beginning in February 1995,

the Contingent and Alternative Employment Arrangement Supplement (CAEAS) to the CPS has been administered biennially. Much of the research into CWAs draws its support from this initial 1995 round of data.³ Included in the CAEAS are data on contingent workers' arrangement preferences and the duration of their employment in CWAs. These data are complemented with the normal demographic, industrial, and occupational data contained in the basic monthly CPS. In addition to providing us with essential micro-level data, the CAEAS offers a nationally representative source of data with which we can estimate the proportion of the workforce engaged in the various CWAs.

We exploit the three subsequent rounds of the CAEAS to test the robustness of the initial 1995 findings. Our subsequent analyses are based upon data extracted from the 1995, 1997, 1999, and 2001 CAEAS. Initially, we create four distinct cross-sections using the four CAEAS surveys to ascertain the trends evident in CWA employment. Households are contained in the CPS for a maximum of sixteen months, thus there is no overlap of individuals across the four separate cohorts. Given this survey design, we can aggregate these four cross-sections into one pooled sample so as to obtain more precise estimates of the decision to engage in contingent employment.

RESULTS

There are two key findings that are obtained from our analysis of the CAEAS data. The first is that, contrary to the critics' concerns, the incidence of CWAs in the U.S. labor markets has been decreasing over the time period covered in this analysis. We obtain our second key finding from the investigation into the decision made by workers to engage in a CWA. The results of this exercise would suggest that contingent workers are voluntarily opting for employment in these work forms. We fail to find significant evidence to suggest that economic reasons are pushing workers into contracting/consulting work and, to a lesser extent, the other four CWAs. We shall now turn our attention to the penetration of contingent employment into American labor markets.

We report the distribution of workers across the various work arrangements in Table 1. Note that this table has two panels. The first, Panel A, presents the proportion of workers who we observe as holding employment in one of the five CWAs or who are employed in an open-ended (regular) employment arrangement. The second panel presents tabulations of the total number of individuals who are employed during the months covered in this analysis. Multiplying the proportions contained in Panel A by the total non-farm employment statistics highlighted in Panel B allows us to estimate the total number of workers who are engaged in the various work forms.

Although agency temporaries receive much of the popular media's attention,⁴ this employment arrangement accounts for less than one percent of total non-farm employment in the United States. That is to say, approximately one million workers, out of one hundred and thirty-two million, were observed as being an agency temporary in 2001. In contrast, their direct-hire counterparts are far more numerous. This CWA employs approximately six percent of all American workers. Thus, we estimate that approximately 8.5 million workers received their paychecks from direct-hire temping in 2001. Oncall work accounts for slightly more of the workforce than does agency temping. In 2001, slightly fewer than two percent of all workers, or 2.2 million workers, can be found working as an oncall or day laborer.

Those who rely on a contract firm to secure their job-tasks comprised the smallest work form in the U.S. In 2001, less than one-half of one percent of all workers, or approximately 0.7 million workers, earned their living via contract employment. Across all four cross sections the most common CWA is (independent) consulting and contracting work as more than 8.5 million workers were engaged in such employment during 2001. This finding that consulting and contracting employment constitutes the most pervasive CWA holds across all four of our cross-sections.

Table 1: Contingent Work Arrangements and Employment in the United States

A. Contingent Work Arrangements	February 1995	February 1997	February 1999	February 2001
Regular workers	84.5%	85.1%	85.6%	85.0%
Agency temporaries	1.0%	1.0%	0.9%	0.9%
Direct-hire temporaries	6.6%	5.8%	5.8%	6.4%
Oncall workers	1.7%	1.6%	1.7%	1.7%
Contract workers	0.5%	0.6%	0.6%	0.5%
Contractors and consultants	6.7%	6.7%	6.3%	6.4%
n	57,908	51,805	52,461	38,843
B. Total Non-Farm Employment	116.5	121.4	127.9	132.4

Note: Total Non-Farm Employment is reported in millions.

For contingent (regular) workers, there was a downward (upward) trend in the employment proportions over the 1995-99 time period. The proportion of workers engaged in contingent employment did slightly increase in 2001. Agency temping and oncall work remained virtually unchanged over the entire period examined. Both direct-hire temping and contracting/consulting, the two largest CWAs, saw their shares of the U.S. workforce decline from 1995 to 1999, albeit with slight up ticks in 2001. Their increased shares of the workforce in 2001, it should be noted, are statistically significant.⁵ This up tick did not offset the decline experienced in the 1995 to 1999 time period. The overall reduction in the proportion of the workforce engaged in a CWA from 1995 to 2001 is itself statistically significant.

These results presented above appear to lend little support for the critics' concern of the creation of a disposable workforce. One of the key criticisms attaching to the use of contingent employment by firms is the

perceived incentive to transfer large numbers of (regular) workers onto the contingent payroll so as to save on wage and benefit expenses. This concern is not supported by the results we highlight in Table 1. These tabulations lead to one controversial conclusion: the use of CWAs by firms and workers significantly decreased over the period of time covered by our data. An examination of the reasons provided by workers as to why they selected contingent employment also provides little support for the fears that firms are using CWAs to circumvent labor protection laws.⁶

Given the negative implications that contingent employment is thought to hold for both worker earnings and employment stability, one might wonder why a worker would opt for such employment. The CAEAS attempts to provide us with an answer to this question through the inclusion of questions for selected preference measures. For example, contingent workers are asked to select from a predetermined list the primary reason as to why they are in their current employment arrangement. Subsequent questions ask if a worker engaged in a CWA would prefer another arrangement, might prefer a different arrangement, or if they are satisfied with their current work arrangement. Finally, the CAEAS also includes data which allow us to determine approximately how long (in years) a worker has been employed in his or her respective work arrangement.⁷

The cross-tabulations obtained from the analysis of these data are highlighted in Table 2. Note that this table has three panels. The first contains the tabulations of the primary reasons provided by contingent workers for their choosing employment in their particular CWA. Panel B presents the results that are obtained from the worker preference questions. One complication attaching to our analysis in these panels is that data for contract workers are unavailable from the CAEAS.

Our final panel evaluates the 'Time in Arrangement' that has elapsed from the time a worker entered in contingent employment until the administration of the appropriate (February) CAEAS. This 'Time in Arrangement' variable does differ across the various CWAs. For agency temporaries, it is the number of years in which a worker has been accepting assignments from a temporary agency. Thus, this variable should not be viewed as being the number of years that an agency temporary has been with

a particular client. With direct-hire and oncall workers, this variable does explicitly represents the number of years these workers have been with their current employer at the time of survey. In these cases, the employers are also the workers' client firms. Similar to agency temporaries, contract workers are asked how long they have been in their arrangement. Unfortunately, comparable questions are not administered to those who are engaged in contracting/consulting work.

A second measure of arrangement duration is constructed through a dichotomous variable equal to one if a worker has been in that arrangement for a year or more (zero otherwise). To be precise, they are asked if whether they have been working in their present arrangement for at least one year or more. Sample sizes are not reported in Panel C because those workers who fail to respond to the continuous duration variable are asked a follow-up question. One additional caveat is attached to the results that are contained in Panel C. All durations are right censored, as we know only the time spent in the current CWA up and until the worker's CAEAS interview. These durations should be not viewed as completed spells of contingent employment.

Table 2: By Employment Arrangement, Selected Preference Measures				
A. Reasons for Employment	Agency temporaries	Direct-Hire temporaries	Oncall workers	Contract workers Contractors/ consultants
Fired, rehired temporary	0.02	0.01	0.01	0.01
Only work could find	0.34	0.16	0.25	0.03
Hope leads to permanent	0.17	0.07	0.06	0.01
Money is better	0.02	0.02	0.02	0.19
Other economic	0.06	0.06	0.07	0.05

Table 2: By Employment Arrangement, Selected Preference Measures				
A. Reasons for Employment	Agency temporaries	Direct-Hire temporaries	Oncall workers	Contract workers Contractors/ consultants
Total Economic Reasons	0.61	0.32	0.41	0.29
Enjoy flexibility	0.17	0.11	0.24	0.24
Childcare difficulties	0.00	0.01	0.01	0.02
Other family obligations	0.03	0.04	0.04	0.03
Schooling obligations	0.03	0.31	0.07	0.01
Gain experience/ training	0.02	0.03	0.00	0.03
Prefer short-term	0.02	0.03	0.01	0.27
Other personal	0.12	0.16	0.20	0.13
Total Personal Reasons	0.39	0.68	0.58	0.72
B. Preferences				
Prefer another arr.	0.59	0.52	0.51	0.09
Maybe prefer another arr.	0.06	0.04	0.05	0.05
Satisfied with current arr.	0.35	0.44	0.44	0.86
C. Duration				
Time in arrangement (in years)	1.36	2.49	3.81	3.68
Percent engaged in arr. > 1 year	43%	75%	63%	69%

Consistent with the preliminary 1995 research,⁸ we find that agency temporaries emerge as the most dissatisfied with their employment arrangements among contingent workers. The tabulations contained in Panel A would suggest that the majority of these workers would prefer employment in any other arrangement than agency temporary work. Although sixty percent of agency temps indicate that any other work form would be preferable to their current employment arrangement, the suggestion is not all agency temps are involuntarily engaged in such work. Personal or flexibility needs encouraged approximately forty percent of these workers to enter into this arrangement. Further undercutting the concerns of the critics, only two percent of agency temporaries indicate that their (open-ended) position was eliminated and that they were rehired as a temporary worker. This reason was also an unimportant consideration across the other three work arrangements for which we have complete data. It should still be noted that a substantial number of agency temporary and oncall workers indicate that their employment arrangements were the only forms of work that they could secure. A similar finding is obtained, although to a lesser extent, among direct-hire temporaries.

At the other end of the preference spectrum are consulting and contracting workers. These workers are overwhelmingly happy with their current work form. Fewer than ten percent of contractors/consultants indicate that they would prefer to work in an arrangement other than consulting or contracting. These workers are particularly pleased with the flexibility in scheduling permitted by this work form or would prefer to have employment that is short-term in nature. One key benefit that has always been associated with consulting or contracting work has been the ability that an individual has to accept or decline potential clients or project on the basis of the worker's judgment of desirability.

Located in Panel C of Table 2 is information on the amount of time that workers have spent in their respective CWAs. It would appear that temporary work is, in fact, temporary. Only forty percent of agency temps spend more than one year in this arrangement. Direct-hire temporary, oncall, and contract workers do experience slightly longer durations than agency temps. On average, agency temps spend about 1.3 years accepting

assignments from a temporary agency. The longest time spent in a CWA is that associated with oncall work as the average worker spends 3.8 years in this work form.⁹

If a worker's need for flexibility in scheduling work hours plays a key role in the decision to engage in contingent employment, we might wish to examine the employment decisions made by a group of workers who might truly desire this flexibility. The data contained in the basic CPS allows us to identify those (employed) workers who are concurrently enrolled in school. These competing demands for an individual's time may make employment in a CWA particularly desirable. Note that only those individuals aged sixteen to twenty-four are asked if they are enrolled in an educational institution. Those employed workers who may be enrolled in school, yet are older than twenty-four, are unobserved to us. This may introduce a degree of bias into our investigation into the employment decisions made by all workers who are actually observed as being enrolled in school.

Table 3: Employment Choices of Workers Enrolled in School				
	February 1995	February 1997	February 1999	February 2001
Agency temporaries	1.0%	1.0%	1.0%	1.0%
Direct-hire temporaries	17.0%	18.0%	19.0%	1.0%
Oncall workers	3.0%	3.0%	3.0%	3.0%
Contract workers	0.0%	0.0%	1.0%	0.0%
Contractors/consulta nts	2.0%	1.0%	2.0%	1.0%
n	3,320	2,984	3,092	2,276

We present the findings obtained using this sub-sample in Table 3. That is to say, we present in this table those employment arrangements selected by workers who are also enrolled in school. Across all four rounds

of the CAEAS, we discern one clear trend: direct-hire temping is clearly the employment arrangement of choice for this sub-group. Nearly twenty percent of all workers who are also seeking an education can be found earning their paycheck via this work form. It should be noted that these workers are significantly less likely to be engaged in open-ended employment when compared to the general workforce.

CONCLUDING REMARKS

The results obtained from our CAEAS data fail to provide any support for the notion that contingent work arrangements are trapping workers into an unstable future. In fact, quite the opposite is occurring. Our 1995 results would suggest that the upper bound of the estimated proportion of the workforce employed in a CWA to be around sixteen percent. The percentage of the workforce observed as being a contingent worker significantly declined by one percentage point to account for fifteen percent of the total non-farm employment in 2001.

Furthermore, although contingent worker may indicate that they would prefer employment in a different work arrangement, it would appear that personal or scheduling needs are encouraging them to voluntarily select their work forms. This finding is particularly strong for those employed in contracting and consulting given that fewer than ten percent of such workers would prefer to have other types of employment. For the other contingent work forms, it may initially appear to these employment arrangements are not the worker's preferred choice, but are still being voluntarily selected. The majority of contingent workers provide personal reasons as to why they opted for their employment arrangement. In summary, our results fail to provide any support to the concern that CWAs foster the creation of a disposable workforce in the United States or that workers are being trapped in these work forms.

ENDNOTES

- 1 A series of *Monthly Labor Review* articles in the March 1996 discuss the two possible methods of identifying contingent workers. For comparability, I adopt the method that distinguishes workers on the basis of their work arrangement as put forth by Cohany (1996), Hipple and Stewart (1996) and Polivka (1996a, 1996b).
- 2 This last condition leads to the inclusion of the miniscule fraction of an agency's workers who are engaged in regular employment and are paid by a temporary agency. As noted in Houseman and Polivka (1999), the 1989 *Industry Wage Survey* would indicate that such workers comprise only 3.2% of a temporary agency's total workforce.
- 3 A review of the initial research into CWAs can be found in the series of articles published in the March 1996 edition of the *Monthly Labor Review*.
- 4 For example, the April 21, 2002 edition of the *New York Times* proclaimed the nation to be heading into a recession given a ten percent reduction in payrolls of temporary agencies.
- 5 A paired t-test was used to determine significance at the five percent level.
- 6 For further discussion of the negative implications that contingent work holds for a worker's employment protections, see Hylton (1996), Lee (1996), and Nollen (1996).
- 7 It is possible to identify the time an agency temporary spent with the client for which he or she worked at the time of the CAEAS/CPS interview. This measure, however, would not have measured the time a worker has been engaged in this work form in a comparable manner as the other work arrangements.
- 8 c.f. Polivka (1996c).
- 9 As noted, the tabulations are undertaken using censored data. A more rigorous treatment of the data using duration estimation techniques is necessary and a possible future research activity.

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