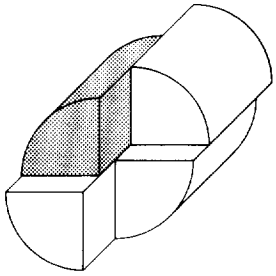

The Quality of Jobs

On the definition of "contingent work"

Lack of an established definition has hindered estimates of this segment of the labor force; factors in defining contingency should include job security and work hours; measurement may require a combined household-establishment survey

Anne E. Polivka
and
Thomas Nardone

In the 1980's, the American economy produced the longest peacetime expansion of the post-World War II era. During this expansion, employment increased by about 20 million and unemployment reached its lowest level in 15 years. While labor market prospects for many American workers undoubtedly improved, the work arrangements of some individuals may have fundamentally changed.

During the 1980's, firms have strived to gain greater control over their labor costs by seeking to quickly adjust the size of their work force in response to changing market conditions.[1] A perception exists that firms are relying more heavily on part-time and temporary workers and contracting out for services previously performed in-house. These flexible arrangements, along with other arrangements that do not involve full-time wage and salary workers, have come to be referred to by labor market analysts as "contingent work."

Analysts of the effects of contingent staffing methods on the American workplace have reached various conclusions. Some analysts view the flexibility provided by contingent arrangements as necessary to meet variable market conditions and changing demographics.[2] Many other analysts, however, have concluded that contingent staffing methods have detrimental effects for both employees and employers. Some researchers cite the possible erosion of pay, decline in benefits, loss of job security, inability to obtain on-the-job training, and lack of access to advancement resulting from contingent arrangements as indications of the weakening position of the American worker.[3] Others suggest that the lack of loyalty among contingent workers to their employers could hurt productivity and product quality.[4] Unfortunately, a careful examination of these issues has been hampered by the lack of an established definition of contingent work.

This article examines several issues surrounding contingent work, including its definition, reasons for its existence, and methods for measuring the number of contingent jobs. Our goal is to stimulate further discussion and to move toward a concise, consistent, and measurable definition of contingent work.

Defining contingent work

The phrase "contingent employment arrangements" was coined by Audrey Freedman at a

Anne E. Polivka is an economist in the Office of Research and Evaluation, Bureau of Labor Statistics. Thomas Nardone is an economist in the Office of Employment and Unemployment Statistics, Bureau of Labor Statistics.

1985 conference on employment security and was used to "connote conditionality." She described:

> . . . these conditional and transitory employment relationships as initiated by a need for labor—usually, because a company has an increased demand for a particular service or product or technology, at a particular place at a specific time.[5]

Since the phrase's original usage, contingent employment has been identified with a wide range of employment practices, including part-time work, temporary work, employee leasing, self-employment, contracting out, and home-based work. As a result, the operational definition of a contingent job has become any arrangement which differs from full-time, permanent, wage and salary employment.[6]

When an employer needs someone to pick apples, sort holiday mail, or fill in for a sick employee, a contingent arrangement is established.

Despite its widespread usage, this approach to defining contingent work may cause a large number of jobs to be misclassified. As Audrey Freedman's quote implies, an important characteristic of "contingency" is a lack of attachment between the worker and employer.[7] Yet, the operational definition of contingent work includes some arrangements which involve long-term, stable employment. Many part-time workers, for example, are as attached to their employers as are full-time workers. In fact, in January 1987, half of all part-time workers ages 25 and older had 3.9 years or more of tenure with their current employers. This is about 80 percent of the median tenure of full-time workers.[8] Hence, the operational definition of contingency may misrepresent the status of a substantial number of part-time workers.

Another group that may be misclassified as contingent under the operational definition are the self-employed. These workers, by definition, have no commitment to an employer, but they may have long-term commitments to their occupations or businesses. Some self-employed individuals do have less employment security than paid workers, who may derive some protection from market forces by belonging to large organizations. However, the degree of employment stability is probably more related to the self-employed individual's occupation or field of business rather than the work arrangement itself. Self-employed doctors and lawyers undoubtedly have more employment security than do many wage and salary workers in manufacturing industries. Furthermore, it is inconsistent to consider a self-employed doctor as contingent on the basis of job security, while classifying wage and salary employees of the doctor as noncontingent. Clearly, assuming that all self-employed individuals are contingent leads to logical inconsistencies and an overestimate of the number of contingent workers.

Defining as contingent any job in a firm that contracts to provide goods or services to another firm also would overestimate the prevalence of contingent work. Many workers employed by firms providing services under contract hold full-time, permanent jobs. For instance, the employees of a security firm that provides guards at a textile plant may be as secure in their jobs as the employees of the textile manufacturer. If the demand for the security firm's service declines, its workers may lose their positions. Yet, the same could occur to textile workers if the demand for textiles declines. The job security of both groups is subject to market forces. To classify one group as "contingent" and the other as "noncontingent" solely because one is employed by a contractor and the other by a manufacturer seems inappropriate. In fact, given the relative growth of the service-producing sector compared to the goods-producing sector, jobs in firms that obtain contracts to provide services may be more secure than jobs in firms that manufacture goods.

These examples illustrate the inconsistencies and possible misclassifications caused by the broadness of the operational definition of contingent work—a definition which allows jobs offering a high degree of employment stability to be classified as contingent solely because they are not full-time, permanent, wage and salary positions. Perhaps a better approach would be to construct a definition based on the terms of employment, considering such factors as job security, variability in hours of work, and access to benefits.

Alternative approach. Probably the most salient characteristic of contingent work is the low degree of *job security*. Contingent employment can be described as "on-demand" employment. Often, when an employer needs someone to pick apples, sort holiday mail, or fill in for a sick employee, a contingent arrangement is established. Once the work is completed, however, the employment relationship is severed. In constructing a definition of contingent work, the amount of job security embodied in the arrangement should be the key criterion. Specifically, any work arrangement which does not contain an explicit or implicit commitment between the employee and employer for long-term employment should be considered contingent.

When job security is used as a basis for classifying jobs, it should be noted that contingent arrangements can last for extended periods. Jobs lasting for long periods of time, however, would still be contingent if there is a reasonable degree of uncertainty about the continuation of

employment. For example, a substitute teacher holding a position for a permanent teacher who is on maternity leave may be employed an entire school year. Nevertheless, the substitute position would be contingent because there is no commitment to future employment. The crucial issue when classifying jobs is whether an expectation of future employment exists, not the actual duration of the relationships.

The lack of commitment for future employment also distinguishes contingent work from jobs that involve occasional layoffs. Individuals in noncontingent jobs may experience temporary layoffs due to the renovation of a firm's equipment or a drop in demand for a firm's product. Yet, the jobs would not be considered contingent if there was a reasonable expectation or explicit guarantee of recall.

Another aspect of employment arrangements that could be included in a definition of contingent work is *variability in hours*. In many jobs, the number and scheduling of hours worked may vary, depending on the availability of other workers, the season, or workers' personal commitments such as family or school responsibilities. Arrangements in which the minimum number of hours worked can be changed in an unpredictable manner by the employer or employee should be regarded as contingent.[9]

When considering this aspect of contingency, the randomness of the hours variation is important. Arrangements such as flexitime, in which hours can be changed according to established rules, should not be defined as contingent. Furthermore, even if the hours worked do not constitute a full-time schedule, the arrangement may not be contingent. For example, a permanent 20-hour-a week job would not be contingent. The emphasis should be on the *unpredictability* of hours, not the level.

Finally, much of the discussion surrounding contingent work has been concerned with individuals' *access to benefits*, especially health insurance. Workers classified as contingent under the operational definition, typically receive few or no benefits. For instance, fewer than one-quarter of temporary help employees work in firms that offer health benefits.[10]

It could be argued that access to benefits should be included in a definition of contingent work because the presence of benefits in the employment relationship is a tangible sign of the commitment between the worker and employer. Nevertheless, while the availability of benefits is an important characteristic of employment arrangements, it is neither a necessary, sufficient, nor even desirable condition for defining contingent work. Defining contingency on the basis of who bears the financial responsibility for benefits could misclassify jobs and deemphasize other important aspects of contingency. Self-employed individuals, for example, are responsible legally and financially for all of their benefits. However, they often have long-term commitments to their employment, suggesting they should not be considered contingent. For wage and salary workers, a definition of contingency based on the lack of access to benefits probably would overlap a definition based on job security. The overlap arises because eligibility for benefits typically is tied to long-term employment.

Taking into account the importance of job security and variability of hours, our definition of contingent work is:

> Any job in which an individual does not have an explicit or implicit contract for long-term employment or one in which the minimum hours worked can vary in a nonsystematic manner.[11]

Dual labor market theory. A noteworthy feature of our definition is its apparent resemblance to the concept of the secondary job market developed by proponents of dual labor market theory. Dual labor market theorists divide the labor market into primary and secondary markets. The primary market is characterized by jobs with relatively high wages, good working conditions, promotion potential, and employment security. In contrast, the secondary market is characterized by jobs with low pay, poor working conditions, and little advancement or job security. Most dual labor market theorists consider the difference in job security as the critical distinction between the primary and secondary markets.[12] This emphasis on job security suggests a connection between the secondary labor market and the proposed definition of contingent work. Nevertheless, there are important differences in the motivation for the formation of the two concepts, as well as in the types of jobs which would fall within each category.

Another aspect of employment arrangements that could be included in a definition of contingent work is variability in hours.

Dual labor market theory was formulated during the 1960's to explain the persistence of discrimination and unemployment among the economically disadvantaged, particularly urban blacks. The theory suggests that the poor economic position of these individuals resulted from their entrapment in the secondary market. According to dual labor market theorists, no individual would choose to be employed in the secondary market.[13]

In contrast, when discussing contingent arrangements, the economic positions of such diverse groups as working mothers and displaced workers are examined. Furthermore, analysts of the contingent labor market admit that some individuals hold contingent jobs voluntarily.

In addition to these conceptual differences, secondary and contingent jobs differ in the breadth of occupations included in each category. The secondary labor market is generally restricted to low-skilled occupations, while contingent work often includes high-skilled occupations such as nurses, accountants, substitute teachers, and engineers. Thus, even though similarities exist between secondary jobs and contingent jobs, the differences are substantial enough that the discussion surrounding contingent work cannot be subsumed by dual labor market theory.

A shortage of labor in an occupation may force employers to hire individuals who are unwilling or unable to accept permanent positions.

Why contingent work exists

Before discussing issues involved in the measurement of contingent arrangements, it would be useful to review the reasons why they exist. To draw attention to the fact that the desire for contingent arrangements can be generated by *either* the employer or the employee, the discussion will be divided along these lines.

Employers' reasons. The most commonly cited reason for firms using contingent arrangements is to control costs. Perhaps the largest cost savings result from the reduced time that paid workers are idle or work at less than full capacity.[14] Within the course of a day, week, or year, the demand for a firm's product can vary in a systematic way. Maintaining a constant work force through these expected changes in demand would be costly. To reduce these costs, firms may choose instead to hire workers on a contingent basis. For example, canning firms may hire seasonal workers during the harvest, owners of car washes may use day laborers to meet high demand on weekends, and private postal and fast food delivery services may use on-call hiring arrangements to meet daily peaks.

In addition to decreasing the number of hours workers are idle, contingent arrangements can help firms contain costs by reducing worker compensation and administrative costs. Evidence suggests that firms offer lower pay and few or no benefits to workers filling contingent positions.[15] Additionally, contingent arrangements can reduce personnel and training costs by eliminating many of the expenses which would be incurred when recruiting a "regular" employee.[16] Any combination of these cost savings—a decline in the number of paid idle hours, lower wages, decreased liability for benefits, or reduced personnel and training costs—could encourage firms to use contingent arrangements.

Besides providing many cost savings, contingent arrangements can help employers meet nonsystematic changes in demand for their products. At times, firms may be uncertain whether their product demand will continue at its current level. In the initial stages of an economic recovery, for example, employers may be uncertain about whether an increase in demand will be sustained. Consequently, even though firms may need extra workers, they may be reluctant to hire permanent staff until the economic outlook is more certain. Firms may choose instead to meet their labor demand with workers to whom they have no permanent commitments.[17]

Adjusting to fluctuations in demand through contingent arrangements also can help firms insulate a core of permanent employees from layoffs.[18] There are several reasons why a firm may wish to protect the employment of its permanent staff. By increasing job security, firms can safeguard the human capital investment in their current workers and hire more talented new workers. In addition, firms may also obtain wage and work rule concessions from their permanent staff by offering them employment security.

Similar to fluctuations in a firm's demand for labor, the labor supply of its permanent staff could vary in both planned and unplanned ways. For instance, permanent workers may go on vacation, become ill, or have to care for an elderly parent or other family member. Firms may choose to cover these changes in labor supply with contingent workers.

Firms may also use contingent arrangements to screen prospective candidates for permanent jobs. In a survey of 442 firms that was conducted by Katherine Abraham in collaboration with the Bureau of National Affairs, 23 percent of the firms that used flexible arrangements reported doing so in order to identify good candidates for regular jobs.[19] Many temporary help agencies view the practice of clients hiring "temps" on a permanent basis as enough of a problem to charge them a penalty when temporary workers are retained permanently.[20]

In addition to providing a mechanism to screen job candidates and reduce the personnel costs of clients, the temporary help industry may actually help stimulate the demand for contingent workers. By assuring firms a steady supply of screened and trained workers, employers may be encouraged to use "temps" when they otherwise would forgo hiring. If firms had to recruit, train, and hire temporary replacements for permanent staff, the only cost effective alternatives may be to delay projects or reassign work. Access to the temporary help industry may enable firms to easily create contingent positions.

While many factors encourage the use of con-

tingent arrangements, there are times when firms may be compelled to do so. A shortage of labor in an occupation may force employers to hire individuals who are unwilling or unable to accept permanent positions. For example, some nursing homes and hospitals hire nurses on a contingent basis because they are unable to fill nursing vacancies at prevailing wages. Employers also may be willing to accommodate the desires of highly skilled workers for contingent arrangements in order to gain access to their expertise. For example, it is not unusual for firms to hire retired executives as temporary consultants.[21]

Finally, by increasing the cost of laying off workers, legislation designed to protect workers could inadvertently encourage employers to use contingent arrangements. Specifically, courts have held that under the Equal Employment Opportunity Act the composition of a group of laid-off workers can be used to establish that an employer's actions are discriminatory, even if the intent to discriminate cannot be proven. Thus, any employer who lays off a large number of workers runs the risk of being sued. Contingent arrangements can help employers eliminate this risk by reducing the need to furlough their own employees.[22]

All of the factors discussed above—cost containment, the ability to easily meet variations in product demand or labor supply, the desire to protect the employment of permanent staff, the inability to attract qualified permanent workers, and the existence of legislation which makes it costly to lay off permanent staff—may make contingent arrangements desirable for firms.

Workers' reasons. Much of the discussion surrounding contingent work suggests that individuals take contingent jobs only because they cannot find permanent work. This is undoubtedly true for some workers, especially during economic downturns. For a variety of reasons, however, some individuals may prefer contingent arrangements.

In order to meet family, school, or other nonwork responsibilities, many workers may need more flexible schedules than can typically be found in permanent work arrangements. Parents of young children may wish to work only during school hours or during the school year. Conversely, students may want to work only when school is not in session. Other workers may need flexible schedules so they can care for elderly parents. In order to gain this flexibility, workers may accept contingent positions.[23]

In addition to a desire for flexibility, workers may take contingent positions if they are unsure about their commitment to a particular field or to the labor market in general. To test their interests, new entrants or reentrants to the job market may take a contingent position in a field they are considering for a career. The temporary help industry may encourage market testing by providing workers an organized method of sampling specific jobs as well as the job market in general.

Another reason individuals may accept contingent jobs is to supplement their income. Some workers may moonlight in contingent positions to meet regular expenses or pay off debts.[24] Still others may accept contingent positions to meet temporary declines in family income, particularly when other family members may be laid off. Older persons may work on a contingent basis to supplement pensions or Social Security, where earnings limits often discourage permanent, full-time work.

While some individuals supplement income through contingent arrangements, others use them as a means of rearranging the form of compensation. Workers who are covered under their spouses' health insurance and retirement programs may prefer the different combinations of benefits, hours flexibility, and cash income available through contingent arrangements. Others simply may be willing to trade compensation for the freedom and independence of contingent arrangements.

Measuring contingent work

Contingent arrangements are obviously not a new labor market phenomenon. However, some analysts have suggested that changing demographics and increasing cost pressures have caused the number of contingent jobs to increase markedly in recent years.[25] To ascertain whether contingent arrangements have become more prevalent, however, a good measurement of the number of contingent jobs is needed.

To test their interest, new entrants or reentrants to the job market may take a contingent position in a field they are considering for a career.

A widely cited estimate of the contingent work force was made by Richard S. Belous of the National Planning Association. Belous estimated that at least 29 million people held contingent jobs in 1987. The figure is the sum of part-time workers, self-employed individuals, and a fraction of the employment in the temporary help supply industry.[26] Although useful for drawing attention to the issue of contingent work, this estimate can be improved both in its concept and calculation.

Conceptual problems stem from the approach used to make the estimate. Groups of workers are counted as contingent on the basis of characteristics that are not directly related to contingency. Specifically, all part-time and self-employed workers are counted as contin-

gent, although as previously noted, many of these individuals are in long-term, stable work arrangements.[27]

Belous's approach also leads to both overcounting and undercounting. A substantial number of workers fall into more than one of the categories included in his estimate. BLS data show that, in 1987, about 1.9 million of the self-employed worked part time, and an unknown number of the workers in temporary help jobs may have held second jobs in which they were part time or self-employed.[28] On the other hand, a major source of undercounting in the estimate is the lack of data about workers hired directly by employers for temporary jobs.

Many of the above criticisms could be made of any estimate of contingent work that uses data currently available. Current nationally representative surveys simply do not measure the extent of contingent arrangements.[29]

Ideally, an estimate of contingent employment would be made using data collected about job security and the variability of hours worked. Using our proposed definition of contingency as a guide, such data might be obtained through a new survey or additional questions on an existing survey. Prior to formulating the questions, a decision would need to be made on the most appropriate survey instrument. An establishment, household, or combined establishment and household survey could be the vehicle for the measurement. An establishment survey would allow the distinction to be made between contingent jobs and workers who change jobs frequently, making the jobs they hold appear to be contingent. This difference is important because many workers move frequently among permanent jobs, particularly early in their careers. A household survey, however, would have the advantage of easily providing a variety of demographic information. Furthermore, it would permit an investigation of the proportion of workers who prefer contingent arrangements.

To take advantage of the strengths of both types of surveys, the most appropriate instrument for measuring contingent employment may be a combined establishment and household survey. Establishments and workers could be matched through the use of unemployment insurance records. A sample of the firms and workers could then be surveyed. A combined survey would provide information about a myriad of demographic, occupational, industrial, and establishment characteristics. In addition, employers' and employees' perceptions of the terms of employment for specific jobs could be compared.

Regardless of the type of survey, questions concerning job security and variability of hours would have to be developed. To understand and accurately measure contingent arrangements, it might be necessary to use at least three types of questions. Questions designed to (1) elicit information about the probability of existing employment arrangements continuing; (2) inquire directly about commitments to long-term employment; and (3) measure characteristics that may be indicative of contingent arrangements. For instance, when inquiring about job security, both employers and employees could be asked about the probability of a position remaining in existence if current economic conditions continue, the probability of the position being eliminated if conditions deteriorate, and, for workers who are laid off, the probability of being recalled if conditions improve. Employers and employees could also be asked directly if a commitment to long-term employment exists. Finally, information could be sought about characteristics of specific jobs such as the distribution of individuals' job tenure. Such information may be useful for distinguishing between permanent and contingent jobs. The above discussion touches on some of the issues to consider in a measure of contingent work. Final determination of the type of survey to be used and the questions to be asked will require further research and discussion.

THIS ARTICLE HAS SOUGHT to define and explain the existence of contingent work. The extent and effects of such arrangements will undoubtedly continue to be important issues. Besides counting the number of such jobs, the effects of these arrangements on America's international economic position, corporate profit, capital investment, and individual economic welfare are issues worthy of study. □

Footnotes

[1] Reasons firms have sought greater control of labor costs include the severe recessions of the early 1980's, the rise in international competition in many manufacturing industries, and the deregulation of domestic transportation, communication, and finance industries. See Audrey Freedman, "How the 1980's have changed industrial relations," *Monthly Labor Review*, May 1988, pp. 35–38; and Roberta V. McKay, "International Competition: Its Impact on Employment," in *Flexible Workstyles: A Look at Contingent Labor* (U.S. Department of Labor, Women's Bureau, 1988), pp. 23–28.

[2] Richard S. Belous, "How human resource systems adjust to the shift toward contingent workers," *Monthly Labor Review*, March 1989, pp. 7–12.

[3] Testimony of Rodger Dillon before the Committee on