New Employment Relationships and the Labor Market

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I. Introduction
In recent years the U.S. labor market has often been characterized as generating many jobs that fall short of customary standards. Jobs that pay low wages, lack benefits, provide little security, or produce only intermediate services have been described as growing in importance. The idea that jobs and employment arrangements are less satisfactory to workers now than they used to be is prominent in popular discussion of contemporary labor market trends. I examine some of these new employment arrangements to assess their economic and labor market significance.

Several kinds of nontraditional employment arrangements have apparently grown in importance. These trends reflect the choices people make in their roles as workers, employers, and consumers. The fact that these choices reflect the preferences of those who make them establishes a presumption that the new arrangements are constructive. Since critical views have been expressed about some of these new arrangements, however, it is important to take a careful look at arguments about their rationale and effects. I focus mainly on temporary and contract workers, but it is useful to begin with a broader discussion of different types of employment arrangements.

II. Diversity in Employment Arrangements
Employment arrangements in the economy are extraordinarily varied, and the ways in which they differ are not easily summarized. Nontraditional jobs are probably most easily described by contrasting them with an idealized concept of "traditional" employment. An idealized, traditional employee is usually seen as a wage or salary employee (not self-employed), working full-time (40 hours per week) and full-year (50–52 weeks), and being at the workplace during regular day-time, week-day hours. Jobs that do not meet all of these criteria, such as part-time work or self-employment, have often been described as less desirable than traditional jobs.

Trends in consumption patterns, such as more spending for travel, entertainment, vacations, and restaurant meals, have meant that many more workers need to supply such services outside of traditional week-day hours. To supply the services that consumers want for leisure and other activities at convenient times, more
cashiers, nurses, transportation and restaurant workers, and many others need to work during evenings or on weekends, and often only part-time for a particular job. Although a majority of employed Americans still work regularly during the daytime on all five workdays according to recent studies, only about a third work under such arrangements for 35 to 40 hours a week. About 3 out of 10 part-time workers do not have fixed daytime hours, and 4 out of 10 service employees spend some of their working time in the early morning, at night, or on weekends. Changes in consumption patterns and in productivity have resulted in a smaller proportion of the work force employed in the kind of production line manufacturing jobs in single-shift operations that have often been viewed as characteristic of an industrial economy.

Pay is another important dimension of jobs. The money wage is the most obvious — and the most traditional — component, but non-wage benefits have become increasingly important. Benefits range from paid holidays, vacation time, a health plan that covers family members, and tax-sheltered private pension plans to meeting legal requirements for family leave, continuation of health plans, advance notice of layoff, and so on. Workers naturally prefer more benefits to fewer, but some of them might prefer doing without some benefits rather than accepting lower wages to compensate for their cost. Many workers would probably share the sentiments expressed by a respondent to a Business Week survey for a Work-Family Champions competition: “All these family-friendly policies are great but [this company] would be a lot more family-friendly if I were making more than $8 an hour.”

Still another dimension of jobs concerns the employee’s work experience and wage prospects. Some job situations are usually regarded by both workers and their employers as likely to be temporary. Jobs for teenagers at fast-food restaurants are an example. Although they gain valuable general work experience, most of these workers probably do not think of such jobs as a first step in a food services career. Work experience acquired in many other jobs is important for career progression, and for a large share of mature workers career progression takes place within a given firm. Many workers move between firms and even occupations, and reallocation of production and jobs usually takes the form of movements of workers between firms as they expand or contract production rather than major changes in products produced by firms. The labor market has historically served as the main intermediary for shifting workers to production of different products, and there is little evidence that workers are now more vulnerable to job changes.

Growing diversity in work schedules, the kinds of benefits that appeal to workers, and job and career paths are largely driven by diversity in the economic realities of the marketplace and the personal and family circumstances of workers. Jobs also differ in terms of relationships between employers, workers, and customers. In the production of services, a job typically entails working for an employer to provide services for a third party — the customer. For goods, on the other hand, the employer is also the immediate beneficiary of what the worker produces. Although these kinds of arrangements may be typical, they are not universal. Employment relationships with workers on the payroll of an intermediary firm that essentially sells workers’
productive capabilities may be getting more common, and this kind of nontraditional, nonstandard job is the subject of the discussion that follows.

III. Market-Mediated Employment Relationships and Their Rationale

A number of related terms and concepts have been used to distinguish between different types of nontraditional employment arrangements. The term "contingent workers" has sometimes been used to describe a class of workers whose jobs are seen as nontraditional or impermanent.\(^5\) Workers usually placed in this category comprise a large proportion of the work force, including part-time workers and self-employed independent contractors. Employment relationships of workers in this category are so disparate that their diversity limits the usefulness of the classification.

To assemble information on how important nontraditional jobs are, the Bureau of Labor Statistics developed a survey that distinguishes between workers who do not expect their jobs to last very long (what the BLS calls "contingent" workers) and those who see their jobs as more permanent and identifies workers employed under four different kinds of "alternative employment arrangements."\(^6\) My main focus is on workers in two of these four categories: temporary and contract workers. I devote little attention to independent contractors or to on-call workers and day laborers (substitute teachers and people who show up to be available for work) because both categories are quite traditional.

The term that best describes the kind of employment relationships that I focus on is "market-mediated."\(^7\) The two categories of workers covered by the BLS survey to which the term market-mediated can be most accurately be applied are workers paid by temporary help supply firms and workers supplied under contract to the firm where they work. Temporary and contract workers characteristically work for a different firm than the firm that employs them. That is, temporary workers are generally under the supervision of the firm where they work, but on the payroll of the firm that supplies them. Similarly, contract workers are not on the payroll of the client firm where they work, and their work is directed by their client. Temporary and contract workers typically work in ongoing relationships with a client, in contrast, for example, to intermittent work by construction tradesmen or copy machine repairmen. Why then are temporary and contract workers not hired directly by the firm where they do their work? The circumstances raise questions, and even sometimes suspicions, about the reasons for these indirect employment relationships.

The reasons for market-mediated employment relationships are quite varied, and the constructive role that temporary and contract workers can play is increasingly recognized and acknowledged even by critics. Temporary work helps firms make use of only the workers they need, just when they need them. It can provide similar advantages for people who need to or want to interweave work with other responsibilities and interests. For workers and for the firm where work is being done, temporary work affords "an opportunity to size each other up before deciding to enter into a more stable employment relationship."\(^8\)
Contracting work out sometimes helps a firm smooth out its own employment in much the same way as bringing temporary workers in to meet temporary needs. In addition, workers are sometimes better able to develop their skills and further their career goals if their primary attachment is to the contracting firm instead of to the firm where the work is actually being done. It might be difficult to stay up with the state of the art in computer technology, for example, outside of a firm that specializes in providing computer services under contract. Firms supplying specialized services under contract may also be in a better position to evaluate the performance of individual workers than the firm where the work is done. These are some of the ways in which market-mediated employment relationships, such as temporary and contract workers, can contribute to increased efficiency and flexibility of labor utilization in the economy as a whole. 9

Market-mediated employment relationships have sometimes been criticized on the grounds that these arrangements enable a firm to reduce its costs by using workers who are employed by a different firm that pays lower wages and fewer benefits. Those who argue that market-mediated arrangements are motivated by efforts to cut labor costs sometimes point to the rapid growth of temporary workers, their relatively low wages, and frequent absence of non-wage benefits. Although average wages of temporary workers are lower than wages in business services, average skills are also likely to be lower.

Average wages for temporary workers are about 85 percent of the average for business services, for example. Average wages in computer and data processing services are about 66 percent higher than in business services, however, mainly because of their higher, computer-related skills. Similarly, the proportion of temporary workers who receive non-wage benefits may be low, but many of them are on the payroll for a short time. Major help supply firms do offer benefit packages to workers after they are on the payroll for a time. The absence of benefits often reflects mainly workers’ preferences or short job tenure. The relevant alternative to working for contract firms is sometimes not long-term employment with firms where the work is being done. In such instances, contract work may afford more employment stability and increase the prevalence of non-wage benefits because the principal alternative would instead be shorter job tenure with a series of different firms. Lower average wages or fewer benefits do not by themselves imply that workers are paid less under market-mediated work arrangements than under more traditional arrangements: It is necessary to take into account workers’ skills and other characteristics. Evidence that has been developed on this issue suggests that market-mediated arrangements do facilitate greater wage differentiation by skill levels. 10 Thus, wages for computer technicians may be higher, and for janitors lower, than they might be under a regular employment relationship.

It is important to distinguish between two related, but quite different, arrangements that are both sometimes described as "contracting work out." The discussion here is focused on employment relationships in which the contract workers’ employer provides their services, under a contractual relationship, to another firm
that makes use of their services. In a very different context, contracting work out refers to buying products from a different firm instead of producing them. Whether contracting out should be limited has been one of the issues in collective bargaining negotiations between General Motors and the United Auto Workers, for example. Contracting out work in these circumstances involves buying parts or components from a different firm, a firm whose workers may not be organized by the same union or working under a similar wage agreement. The issue in this latter instance is whether the employer acquiesces in maintaining the same extent of vertical integration in production, not whether employment relationships will be modified.

Spokespersons for unions have frequently expressed concern about market-mediated employment arrangements. Partly because the legal framework for union organization and bargaining was developed in the context of more traditional employment relationships, these indirect arrangements make it more difficult for unions to maintain their membership and to attain their bargaining goals. Public policy concerns have also sometimes been raised about how government mandates are affected. Market-mediated arrangements can make enforcement more difficult for requirements like those for minimum wages or overtime pay, because responsibilities and record keeping are dispersed. For some requirements like those for parental leave or advance notice of layoffs, market-mediated arrangements that bring in workers only when they are needed can serve to essentially circumvent the intent of the mandates.

IV. Growth and Significance of Market-Mediated Work

Information from the BLS survey on contingent and alternative employment arrangements provides a good starting point for looking at the importance of work under nontraditional arrangements in relation to the work force as a whole. The data in Table 1 show that under the broadest definitions in the BLS survey, people working under alternative arrangements account for about 10 percent of the total at work. According to these data, however, temporary and contract workers account for only about 1.5 percent of total employment, and only about half of them consider their jobs temporary. Thus, temporary and contract workers who do not expect their jobs to last appear to account for less than one percent of the work force.

The data from this survey indicate that temporary and contract workers account for only about 15 percent of all workers with alternative work status, as defined by the BLS. People working as independent contractors and as day laborers and on-call workers account for the other 85 percent. Workers in these latter two categories account for about half of the workers under alternative employment arrangements who do not expect their job to last. Not surprisingly, the expectation that their job will last no more than a year is most common among temporary workers, although a significant share of these workers expect to work more than a year for the temporary firm itself.

The most useful information on growth trends comes from data on the temporary help supply industry. According to these data, shown in Figure 1, the number
### Table 1

*Employment by Traditional or Alternative Work Status and by Whether Job is Expected to Last, February 1995*

<table>
<thead>
<tr>
<th>Type of Work Arrangement</th>
<th>Total</th>
<th>Permanent: Job to Last</th>
<th>Contingent: Job Not Expected to Last</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Arrangement</td>
<td>111,052</td>
<td>106,999</td>
<td>4,053</td>
</tr>
<tr>
<td>Alternative Work Status</td>
<td>12,156</td>
<td>10,175</td>
<td>1,981</td>
</tr>
<tr>
<td>Independent Contractor</td>
<td>8,309</td>
<td>7,994</td>
<td>315</td>
</tr>
<tr>
<td>On-call Workers</td>
<td>1,968</td>
<td>1,275</td>
<td>692</td>
</tr>
<tr>
<td>Temporary Help</td>
<td>1,181</td>
<td>396</td>
<td>785</td>
</tr>
<tr>
<td>Contract Workers</td>
<td>652</td>
<td>523</td>
<td>129</td>
</tr>
</tbody>
</table>


### Figure 1

*Help Supply Services*

[Graph showing the growth of Help Supply Services from 1982 to 1995.]
employed in help supply services increased by more than 500 percent from 1982 to 1995, at a time when total employment increased by about 30 percent. The extraordinary growth of jobs in the temporary help category is part of a broader picture of growth in business and related services. Computer services jobs increased by about 300 percent since 1982, for example, and business services by about 250 percent. Although data on growth in contract employment are not directly available, growth in business services jobs is suggestive. Business services jobs increased at only about half the pace of temporary employment, but six times as fast as total employment. Most of the growth of contract employment that has aroused concerns probably took place in the business services sector, but whether contract jobs grew more or less rapidly is not clear. Temporary services jobs increased much more rapidly, however, twice as fast since 1982 as the business services sector of which it is a part.

It is apparent from the industry data on temporary help that the number employed in this sector is substantially larger, about twice as large, as the total indicated on the basis of survey responses. The reasons for this discrepancy are not clear, but some workers on the payrolls of temporary firms may have regarded themselves as employed by the firm where they work. The industry data suggest that market-mediated work — temporary and contract jobs — may total some 2.5 million workers, or perhaps up to 3 million if the number of contract workers is underestimated by survey responses to the same extent as the number of temporary workers seems to be.

It is clear that growth in market-mediated work has been very strong for more than a decade. Nevertheless, even if we use 3 million as an upper bound estimate of the number of jobs involved, these jobs would account for only about 2.5 percent of total employment. Some of the rapid growth in these jobs probably represents higher employment than would otherwise be achieved, because some of those with temporary jobs might otherwise be unemployed and looking for work. Only about half the workers in market-mediated jobs apparently see their jobs as temporary. Some of those in temporary jobs will use them as stepping stones to permanent jobs and others may only wish to work temporarily.

The way data on temporary employment are sometimes reported can also be a source of confusion about how many jobs are involved and a source of exaggeration of the importance of alternative job arrangements. Presidential candidate Dole's comment in the last debate on whether General Motors or Manpower is the largest employer in the country illustrates how confusion can arise. About two-thirds of workers in temporary help jobs apparently view their jobs as temporary. Since the average duration of their jobs is short, all of the people who take these jobs for short periods add up to a very large number of workers. As a consequence during the course of a year, more people are employed, at least for a short time, for Manpower than any other private employer, even though — contrary to the implication of Mr. Dole's comment — at any given time more than four times as many are employed at General Motors.
Two quite different faces of temporary work are presented by the large numbers of people who go to work for firms providing temporary help services during the course of a year. Statements about the large number of people who take temporary jobs, without noting that an almost equally large number work only briefly at these jobs, tend to create the misleading impression that temporary employment accounts for a large proportion of net new jobs. However, an emphasis on the large number of people who work only briefly at temporary jobs before they move on to longer-term jobs or other activities contributes to a valid impression about the important role in the labor market played by temporary help services firms. These job arrangements match many workers with jobs, both for the temporary convenience of both parties and for longer-term employment. This is an increasingly important role because the majority of youth delay permanent entry into the work force while they acquire post-secondary schooling, and seasonal and temporary work are more prevalent. Part-time, part-year, and intermittent work play a growing role in our economic life, and temporary help supply firms help to facilitate adjustment to these new economic patterns.

V. Conclusions

Market-mediated employment relationships like those represented by temporary and contract workers account for a growing share of jobs. Growth in jobs of these kinds is not the source of a deterioration in the quality of jobs, however. Relative wages of less-skilled workers have declined, but this reflects weak demand for workers with few skills — too few rather than too many jobs for less-skilled workers. Although temporary and contract workers comprise only a small share of the work force, the flexibility and differentiation they permit play a valuable role in an economy that emphasizes meeting the diverse preferences and needs of its citizens. It seems clear that uniform wages, benefits, and working arrangements would impair the tailoring of jobs and work to employers’ needs and workers’ preferences, and efforts to impose uniformity would be very costly.

The success of temporary help service firms in matching large numbers of workers with jobs can be viewed as the growth of a major new labor market institution. Instead of viewing temporary help services as arrangements that should be discouraged because they are thought to contribute to deterioration in job quality, it is more appropriate to regard them as constructive developments that emerged as private arrangements to meet needs of employers and of people who want to work. By helping to match people with jobs, they improve the efficiency of usage of workers’ time, and they fulfil the immediate needs of workers for jobs and employers for workers to provide goods and services to their customers.
NOTES

1The view that new jobs have deteriorated is in large part based on a misleading interpretation of the decline in relative wages of less-skilled workers. For a careful analysis of this trend, see Kevin M. Murphy and Finis Welch, "Industrial Change and the Rising Importance of Skill," in S. Danziger and P. Gottschalk, eds., Uneven Tides: Rising Inequality in the 1980s, New York: Russell Sage Foundation, 1992, pp. 101–32.


5The term was apparently introduced by Audrey Freedman, and publication of The Contingent Economy: The Growth of the Temporary, Part-Time, and Subcontracted Workforce by Richard Belous (Washington, D.C.: National Planning Association, 1989), helped to popularize an alarmist view about the presumed harmful effects on job quality of the growth of alternative employment arrangements in the United States.


10Ibid.


13This episode is discussed in Steven Pearlstein, "The Temp Firm's Tempest," Washington Post, October 18, 1996. This is an interesting example of a fallacious claim that has been repeated so often in other publications like Fortune and The Economist that its credibility is seldom questioned and further repetition seems to be self-reinforcing. Ida L. Walters in "Temping Fate," Reason, April 1994, pp. 48–51, traces the statement to a March 29, 1993 story in Time.