

GROWTH IN ALTERNATIVE WORK ARRANGEMENTS IN THE UNITED STATES SINCE THE LATE 1960S – CAUSES AND IMPLICATIONS

By Carolyn Cadei

Following the conclusion of World War II, the United States entered an extended period of prosperity. During this period, the primarily male workforce completed their education, found a full-time position with a firm, and then typically remained with that firm for the duration of their professional career. Beginning in the late 1960s, however, a variety of circumstances – economic and otherwise – combined to drastically alter this accepted pattern of employment as well as the traditional relationship between employers and employees. Specifically, companies began hiring increasing numbers of individuals labeled in everyday conversation as temporary, contingent, contract, part-time, or disposable workers.

The United States Department of Labor officially categorizes these employees as engaging in alternative work arrangements. Individuals classified under the broad heading of alternative workers include, but are not limited to, temporary agency, on-call, part-time, independent contractor, direct short-run hire, and contract company employees.¹ In 1999, approximately 66 percent of the 30 million alternative workers in the United States workforce

¹ Françoise J. Carré, “Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses” in *Changing Labour Market and Gender Equality: The Role of Policy*, High level Conference organized jointly by the Organisation for Economic Co-operation and Development (OECD), the Ministry of Children and Family Affairs and the Ministry of Labour and Government Administration held in Oslo, Norway, 12 and 13 October 1998, 3.

were part-time workers.² For the purposes of this paper, I will use the terms contingent and alternative work arrangements interchangeably. The health care and pension plans and level of job security, if any, vary widely across and within these different employment classifications. All forms of alternative work arrangements, however, uniformly offer fewer benefits and less opportunity for advancement than traditional employment.

More generally, when a worker is classified as alternative, a shift has occurred in at least one of two areas pertaining to the traditional employer-employee relationship: hours of work and duration of employment. A traditional employee works, on average, eight hours a day and five days a week, year round. Alternative or contingent work refers to any employment that diverges from this traditional arrangement, be it a part-time position, a part-year position, or a combination of both.³ The United States Bureau of Labor Statistics defines an individual as a part-time worker if the individual generally works less than 35 hours per week. The Bureau asks those employees who identify themselves as part-time to specify the reason they work less than 35 hours. Individuals who chose part-time work over full-time work are labeled “voluntary part-time workers”. Part-time workers, who would prefer – but cannot find – full-time work, are designated “involuntary part-time workers”.⁴ Secondly, a traditional employer-employee relationship centers on the belief that should the employee’s work be deemed satisfactory, the employee will not be terminated except during times of dire financial trouble. With contingent work, regardless of the employee’s productivity, the

² Roger LeRoy Miller, Daniel K. Benjamin, and Douglass C. North, *The Economics of Public Issues*, 11th Edition (New York: Addison Wesley Longman Inc., 1999), 112.

³ Kathleen Christensen and Mary Murphree, “Introduction” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, U.S. Department of Labor, Office of the Secretary, Women’s Bureau, 1988, 2.

⁴ Rebecca M. Blank, “Understanding Part-Time Work” in *Research in Labor Economics – Labor Economics and Public Policy*, vol. 11 (Greenwich, CT: Jai Press Inc., 1990), 138.

relationship between the individual and the firm is for a specified, and usually limited, period of time.⁵

It is worthy to note United States companies utilized alternative work arrangements prior to the 1960s, but in very limited numbers. Beginning in the mid-1960s, however, the nation experienced a drastic increase in the incidence and employment of contingent workers. A study published in 1969 by the United States Department of Labor found that between 1959 and 1966, the percentage of labor contracts containing clauses addressing the issue of subcontracting increased from 22.6 to 43.9 and the percentage of workers affected by these contracts increased from 34.6 to 60.8.⁶ This growth in subcontracting continued throughout the remainder of twentieth century. Between 1980 and 1999, the number of individuals employed by subcontracting firms in the United States increased over twofold.⁷

Increases in the number of individuals working part-time and as temporary employees mirrored the rise in the number of individuals employed by subcontractors. “Since 1968, part-time employment in the U.S. has grown faster than full-time work...The involuntary part-time labor force grew 60 percent between 1979 and 1985, from 3.5 million to 5.5 million workers.”⁸ Similarly, “in 1975, the [temporary help] had a payroll of 853 million dollars and filled 186,000 jobs daily. Ten years later the payroll hit six billion dollars and filled an

⁵ Christensen and Murphree, “Introduction” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 2.

⁶ United States Department of Labor, Bureau of Labor Statistics, *Major Collective Bargaining Agreements: Subcontracting*, Bulletin No. 1425-8, report prepared by Leon E. Lunden, Theresa Ellis, and Ernestine Moore, U.S. Government Printing Office, April 1969, 3.

⁷ Miller, Benjamin, and North, *Economics of Public Issues*, 113.

⁸ 9 to 5, National Association of Working Women, “Working at the Margins: Part-Time and Temporary Workers in the United States”, report prepared by Virginia duRivage (Cleveland, OH, 1986), iii – iv.

average of 830,000 jobs on any given day and five million jobs a year.”⁹ By 1995 and 1997, the Current Population Survey (CPS) concluded alternative work arrangements comprised approximately ten percent of employment in the United States. The CPS calculations did not include short-term direct hires, individuals hired directly by a firm for a short, set duration of time. If the CPS included these individuals, the percentage would have undoubtedly been higher.¹⁰

With this paper, I attempt to identify the forces that wrought this explosion in the employment of alternative workers in the United States. I begin by examining changes in the size and composition of the labor force, in order to isolate the role alterations in worker characteristics and preferences played in the transformation of the traditional patterns of employment. Beginning in the mid to late 1960s and continuing into the 1970s and 1980s, the age distribution of the United States population underwent a dramatic change. The end result of this redistribution was a less-skilled, less-experienced workforce. A central force behind the creation of this more youthful population was the coming-of-age of the baby-boom generation during the 1970s. Produced by World War II and its aftermath, the baby-boom generation consists of individuals born between 1946 and 1964. During the vast majority of this period, the annual number of live births exceeded three million, reaching 4.3 million in 1957. Moreover, in contrast to the behavior of their parents, members of the baby-boom generation married later in life and had significantly fewer children. In 1960, 72 percent of

⁹ Joyce L. Kornbluh, “Historical Perspectives on Part-Time and Temporary Workers” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 18.

¹⁰ Carré, “Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses” in *Changing Labour Market and Gender Equality: The Role of Policy*, 4.

females between the ages of 20 and 25 were married and 55 percent were mothers. By 1985, these percentages dropped to 41 and 34 percent, respectively.¹¹

This significantly lower marriage rate resulted in noticeable changes in the dynamics of American families. Most notably, the incidence of “primary individuals” drastically increased. “Primary individuals’ are defined by the U.S. Census Bureau as households where the household head lives alone or with a non-relative.”¹² Between 1970 and 1980, the number of ‘primary individual’ households increased by approximately 61 percent.¹³ By 1988, single parents headed slightly less than 20 percent of American families.¹⁴

As one would expect, along with the increase in ‘primary individuals’, female-headed households also increased in both absolute number and percentage. The number of households in which a female was the sole wage earner increased by over 1.96 million during the 1970s, a 74 percent increase.¹⁵ By 1988, the total number of households headed by females in the United States increased to 10.4 million.¹⁶ As I alluded to above, the percentage of families with children and the median family size also declined during the 1970s. In 1960, married females between the ages of 25 and 29 anticipated having 3.1 children. By the mid-

¹¹Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, report by Rodney Stares, Office for official Publications of the European Communities, Brussels, Belgium, 1987, 5.

¹²Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, 7.

¹³ *Ibid.*

¹⁴ Jill Houghton Emery, “Between Now and the Year 2000: A Glimpse of the Workplace” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 5.

¹⁵Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, 9.

¹⁶ Emery, “Between Now and the Year 2000: A Glimpse of the Workplace”, 5.

1970s, the figure decreased to slightly more than two children per married female. In the years following 1980, these trends continued, though at less significant rates.¹⁷

The changes in the population demographics and the dynamics of families in the United States led to significant changes in the constitution of the nation's labor force. Beginning in the 1970s, the number and percentage of women participating in the labor force markedly increased. In part, this increase resulted from the growing number of unwed females, as discussed previously. Unwed females are significantly more likely to seek employment for the simple fact they do not have a spouse on whom they can rely for financial support. During this period, however, the number of married women entering the labor force also significantly increased. In 1955, 27.7 percent of married women in the United States participated in the labor force. By 1976, this figure rose to 45 percent, an increase of almost two-thirds in slightly over 20 years.¹⁸

While not central to our discussion regarding the growth in the contingent work force in the United States, I will now briefly mention the generally accepted reasons for the increased labor force participation of women, both single and married. Technological advances coupled with increasing social acceptance made birth control more easily accessible and simpler to use. The growth in the percentage of women pursuing and attaining collegiate and professional degrees inevitably produced a growing number of females with aspirations beyond finding a husband and becoming a housewife. Finally, in many cases, the stagnation

¹⁷ Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, 10.

¹⁸ National Commission on Employment and Unemployment Statistics, "The Implications of Changing Family Pattern and Behavior for Labor Force and Hardship Measurement", Background Paper No. 16, report prepared by Harold W. Watts and Felicity Skidmore, June 1978, 4.

or decrease in real wages during the 1970s and early 1980s forced women to seek employment outside the home to help provide for their families.¹⁹

This increase in labor force participation of women was coupled with a decrease in the participation of males aged 55 and above. Beginning in 1900, the percentage of men in the work force over the age of 65 had been systematically decreasing. In the period following World War II, when both public and private pension plans became more widely available, this phenomenon spread to individuals 55 and older, coming to a head in the 1970s and 1980s. “Between 1975 and 1984, participation rates for white and black males over 55 fell by 15.1 and 19.95 percent respectively.”²⁰

The combination of these factors – an influx of young workers in the form of the baby-boom generation and women and an exodus of older, experienced male workers – and the large scale on which it occurred created a markedly inexperienced workforce. As a result, the following generally accepted characteristics of young workers affected a particularly large portion of the United States labor force during this period. Of the large number of individuals aged 16 to 24 who flooded the workforce, many did not have set career plans and, thus, did not want to make a lasting commitment to any one employer. Others of these young workers were still finishing their education and were only willing to work during summers and part-time during the academic year. These young individuals also lacked the human capital cultivated by on-the-job training and job experience and, therefore, lacked the skills and

¹⁹ Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, 10.

²⁰ Programme for Research and Actions on the Development of the Labour Market, *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*, 13.

knowledge to land high-paying jobs with strong benefits packages and job security. Finally, young workers are often covered by their parents' benefits packages, and even if they are not, they generally are less concerned with benefits than older workers who are closer to retirement age or have a family to provide for.²¹ These attributes of young workers merged to make part-time or contingent work ideal or the only available option for this segment of the labor force. Thus, young workers constituted a larger portion of the general workforce than in previous generations, and for a variety of reasons, the majority of these young workers engaged in alternative work arrangements. It follows that a larger portion of the general workforce would participate in alternative work arrangements.

In addition to the above listed characteristics of young workers, females entering the labor force for the first time or after a long absence possessed several other distinct factors, which affected their employment options. For women lacking job experience and forced into the workforce by divorce or the death of a spouse, temporary jobs or alternative work may be the only job opportunity offered to them. On the other hand, contingent work, specifically part-time work, may also be ideal for women covered by their spouse's benefits plan or who wish to limit the number of hours they work in order to spend time at home with their children. These factors reinforced the trend of increasing numbers of individuals engaging in alternative work.

To summarize, with respect to changes in the domestic supply of labor, the rising incidence of alternative work arrangements resulted from the coming of age of the baby-boom generation and the increasing labor participation of women. This flood of young workers,

²¹ Miller, Benjamin, and North, *Economics of Public Issues*, 114.

combined with the heightened rate of retirement of older, experienced workers, created a particularly young and inexperienced labor force, for whom contingent work arrangements were ideal, the only available option, or both. Having finished the discussion of the supply side of the labor market, I will now analyze structural changes in United States labor markets to determine the reasons for the increase in firms' demand for alternative workers.

As I mentioned in the introduction, in the period following World War II, the majority of workers in the United States spent their entire professional career with one company. Those who did experience unemployment during this time primarily experienced cyclical unemployment. In other words, they believed their unemployment was due to an economic downturn and only temporary. Once the economy picked up, they fully expected to be rehired by the same company. During this era of economic prosperity, many corporations developed policies of rewarding workers with long-term contracts. Even workers who did not receive long-term contracts developed close relationships with their employers. This fostered feelings of camaraderie, respect, and mutual sacrifice on the part of employees.²²

Beginning in the early 1970s, however, the United States endured a series of fairly serious recessions, which resulted in businesses laying-off these workers with whom they had long relationships. These spurned workers believed businesses violated the spirit of implicit contracts and, in many cases, the letter of explicit long-term contracts. This led to mistrust, bitterness, decreases in employee morale, and lawsuits. As a result, businesses became more hesitant to offer long-term contracts or to develop close relationships with employees. One

²² National Commission for Employment Policy, "Employer Strategies for a Changing Labor Force: A Primer on Innovative Programs and Policies", Research Report 90-01, report prepared by Adam Seitchik, Jeffrey Zornitsky, and Christopher Edmonds, July 1990, 5.

attractive alternative that fully allayed the concerns of businesses was the use of temporary workers and alternative work arrangements.²³

Concurrently, United States' imports underwent a drastic change, which only compounded the attractiveness of contingent workers to the nation's employers. The United States' trade with less-developed countries primarily consisted of exporting manufactures and importing raw materials and agricultural goods prior to 1970. After 1970, however, newly industrialized economies (NIEs) began exporting simple, labor-intensive manufactures such as clothing and shoes to more advanced nations including the United States. A significant portion of these imports came from Southeast Asia, where the use of disposable workers is a common practice. Since labor in these countries is relatively cheaper than in the United States, simple manufactured goods from NIEs began dominating American markets, leading to a decrease in the demand for low-skilled manufacturing workers in the United States.²⁴

In addition to a change in the types of goods it imported, the United States also experienced a significant increase in the quantity of its imports beginning in the early 1970s. From the conclusion of World War II until 1970, the nation consistently boasted a trade surplus, meaning the domestic economy exported more goods than it imported. For the bulk of the subsequent decade, the United States ran a fairly minimal trade deficit. This trend, however, did not continue. The trade deficit for April 1984 alone was 12 billion dollars.²⁵ This increase in imports meant domestic corporations faced every increasing competition

²³ Miller, Benjamin, and North, *Economics of Public Issues*, 114.

²⁴ Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (Addison-Wesley, 2003), 80.

²⁵ Roger LeRoy Miller and Russell Shannon, *The Economics of Macro Issues*, 5th Ed., (St Paul, MN: West Publishing Co., 1986), 171.

from abroad and, as a result, constantly searched for new ways to cut costs in order to remain profitable and in business.

United States firms quickly alighted upon the prospect of using alternative workers as a means of dealing with the ever-changing and ever-increasing foreign competition. Companies favored contingent work arrangements because subcontracting or hiring temporary workers allows businesses to transfer the bulk of the risk caused by the uncertainty of international competition and business cycles from themselves to workers, while at the same time increasing their ability to respond to such economic changes. The reason for this is simple. As the economy begins to recover from a recession, corporations hire temporary workers rather than asking current employees to work expensive overtime. As a 1988 U.S. Department of Labor conference highlighted, “obtaining temporary help, in particular, can be done more quickly than hiring permanent workers, since the temporary help firm has already recruited, screened, tested, and, in some cases, trained applicants.”²⁶ Moreover, if the recovery continues, the firm can search for new full-time employees, while the temporary staff fulfills the firm’s current productivity needs. If, however, the economic recovery proves to be short-lived, the temporary workers will be informed their services are no longer required. Some United States firms have taken this strategy one step further and adopted the practice of “lean staffing”. Under “lean staffing”, employers keep an extremely minimal full-time staff on hand. Alternative workers are then hired to assist “not only for unexpected peaks but also to handle normal seasonal or cyclical fluctuations.”²⁷

²⁶ Thomas J. Plewes, “Understanding the Data on Part-Time and Temporary Employment,” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 13.

²⁷ Vary T. Coates, “Office Automation Technology and Contingent Work Modes,” in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 29.

In addition to the flexibility contingent workers offer them, firms prefer alternative workers for the simple fact they are cheaper than traditional, full-time employees. The average hourly wage of a part-time worker in 1985 was \$4.17. During that same year, full-time workers earned an average of \$7.05 per hour.²⁸ Four years later, 25 percent of part-time workers received minimum wage, as compared with only five percent of full-time employees.²⁹ Moreover, in 1995, women employed in temporary work received an average of \$8.94 per hour, and women in part time work received an average of \$9.52 per hour. These two figures are significantly less than \$11.52, the average per hour wage of all women working.³⁰ By providing relatively cheaper labor, alternative work arrangements allow domestic firms to better compete with imports from NIEs, which have an abundance of individuals willing to work for very low wages.

United States corporations also responded to increased international competition by specializing in more technologically complicated products and processes. One of the most well respected models of international trade is the Heckscher-Ohlin model, developed by Swedish economists Eli Heckscher and Bertil Ohlin. With their model, Heckscher and Ohlin contend differences in relative factor abundance determine the goods a nation exports and imports. A country possesses an abundance of a given factor if it owns a relatively larger supply than its trading partners. Factors of production include natural resources, specific types of technology or machines, and labor skilled in particular fields or processes. According to this model, a country specializes in – and thus exports – the goods whose production requires

²⁸ Plewes, “Understanding the Data on Part-Time and Temporary Employment,” 13.

²⁹ Chris Tilly, “Reasons for the Continuing Growth of Part-Time Employment,” in *Monthly Labor Review*, vol. 114, no. 3, March 1991, 12.

³⁰ Carré, “Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses”, 5.

large quantities of the nation's abundant factors and imports the goods whose production utilizes large quantities of the nation's scarce factors of production.³¹

While on aggregate, from an economic perspective, countries benefit from engaging in international trade, international trade does function to redistribute wealth among the citizens of a country. This creates various groups of individuals within a country who benefit and other groups who lose as a result of international trade. In the Heckscher-Ohlin model, the owners of the abundant factors of production gain, while the owners of the scarce factors of production lose.³² In the United States, the abundant factor of production with which this paper is concerned is high-skilled labor. According to a conference summary issued by the U.S. Department of Labor in 1988, "the comparative advantage of the United States is shifting to more sophisticated, technology-driven, precision-engineered, and custom-tailored commodities or products manufactured with rapidly changing technology."³³

These differing comparative advantages and relative factor abundances served to motivate United States companies to conduct the various stages of the production of a single good in several different countries. Technologically simple, repetitive and labor-intensive processes occur in poor countries – typically in Southeast Asia, Latin America, or the Caribbean - with low median wages. In contrast, the technically advanced aspects of production occur in the United States, due to its comparative advantage in high-skilled labor.³⁴ This caused the demand for well-educated workers with high levels of human capital

³¹ Krugman and Obstfeld, *International Economics: Theory and Policy*, 67.

³² Krugman and Obstfeld, *International Economics: Theory and Policy*, 77.

³³ Roberta V. McKay, "International Competition: Its Impact on Employment", in *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 25.

³⁴ McKay, "International Competition: Its Impact on Employment", 28.

to increase and reduced the demand for inexperienced workers with low education levels. In 1988 the U.S. Government noted, “the growing employment trend is away from large numbers of low-skilled employees to an increasing number of middle- and upper-level workers needed to sell and develop new products.”³⁵

As a result, beginning in the 1980s, the type of unemployment experienced by the majority of workers in the United States shifted from cyclical to structural. As firms downsized or adjusted their business strategies to better compete with foreign firms, an increasing number of workers lost their jobs due to “displacement”. A “displaced” worker is a worker “who lost their job due to plant closings, production cutbacks, or layoffs”.³⁶ According to a study conducted by the W.E. Upjohn Institute for Employment Research in 1989, almost 8.8 million full-time workers were “displaced” between 1981 and 1986. Moreover, a survey conducted by the American Management Association revealed that 39 percent of U.S. employers admitted to decreasing the number of workers they employed during 1988 in order to be more competitive.³⁷

The significant recessions that occurred in the early 1980s undoubtedly played a role in firms’ desires to downsize. United States corporations, however, continued to reduce their labor forces even after economic conditions improved in the early 1990s. Approximately 2.2 million workers experienced “displacement” during the course of 1992. This is a significant increase when compared with the fact an average of only 1.8 million workers were displaced

³⁵ McKay, “International Competition: Its Impact on Employment”, 27.

³⁶ U.S. Department of Labor, “The Changing Labor Market and the Need for a Reemployment Response” (Washington, D.C., 1993), 1.

³⁷ National Commission for Employment Policy, “Employer Strategies for a Changing Labor Force: A Primer on Innovative Programs and Policies”, 5.

in the five years between 1984 and 1989.³⁸ By 1992, the U.S. Department of Labor found that 75 percent of individuals who lost their jobs experienced structural rather than cyclical unemployment.³⁹

These increased instances of structural unemployment led to a rise in the average duration of unemployment in the United States. During the 1970s, only 11 percent of unemployed individuals experienced unemployment spells of six or more months, as compared with 15 percent during the 1980s. By 1992, the figure rose to 21 percent. Perhaps most striking is the fact that in 1992, “more than half of displaced workers are still unemployed a year after being displaced, or are employed in jobs paying less than 80 percent of their former wages.”⁴⁰ The growing duration of unemployment spells and incidence of structural unemployment indicate United States firms – on aggregate – continued to cut costs by decreasing their full-time staffs throughout the late 1980s and early 1990s. To fulfill the tasks previously performed by full-time staff member, many companies turned to alternative workers.

In addition to forcing domestic firms to cut costs considerably (eliminating many full-time positions in the process), the increased dependence of the United States on foreign imports and goods wrought another significant change on the structure of the country’s labor markets. Due to the difficulty of exporting or importing many basic services, the domestic service industry and its importance as a source of employment expanded rapidly during the last 30 years of the twentieth century. During the 1970s, 86 percent of all employment

³⁸ U.S. Department of Labor, “The Changing Labor Market and the Need for a Reemployment Response”, 3.

³⁹ U.S. Department of Labor, “The Changing Labor Market and the Need for a Reemployment Response”, 4.

⁴⁰ U.S. Department of Labor, “The Changing Labor Market and the Need for a Reemployment Response”, 5.

growth in private industries can be attributed to growth in employment opportunities within the service industry.⁴¹ In 1983, 73.7 percent of the 4.9 million new jobs were in the retail trade and service industries.⁴² This trend is not expected to slow down anytime soon. A study by Carey and Franklin published in 1991 contended that by 2005 approximately 81 percent of United States employment will exist in the service industry.⁴³

Since a vast majority of alternative work arrangements in America occur in the service industry, the growth in the service sectors is directly correlated with the growth of alternative employment in the United States. In 1998, approximately 90 percent of part-time employment in the United States existed within the service sector.⁴⁴ Thus, expansions in contingent work arrangements, most notably part-time work arrangements, paralleled the expansion of the service sector. In 1940, part-time workers accounted for only 12 percent of the nation's employed. By 1990, the figure rose to 18 percent.⁴⁵ Numerous experts argue the importance of part-time jobs in employment figures would be even higher if, instead of counting the number of part-time workers, the Bureau of Labor Statistics counted the number of part-time jobs. This is due to the phenomenon of individuals holding several part-time jobs in order to make ends meet.⁴⁶ Moreover, in 1973, involuntary part-time workers accounted

⁴¹ Kornbluh, "Historical Perspectives on Part-Time and Temporary Workers", 17.

⁴² 9 to 5, National Association of Working Women, "Working at the Margins: Part-Time and Temporary Workers in the United States", 4.

⁴³ U.S. Department of Transportation, Federal Highway Administration, Office of Highway Policy Information, "Equitable Transportation Access in the Journey to Work for Part-Time Workers", report prepared by the Joint Center for Political and Economic Studies, May 1998, ch. 2, 6.

⁴⁴ U.S. Department of Transportation, "Equitable Transportation Access in the Journey to Work for Part-Time Workers", ch. 2, 5.

⁴⁵ Laurie J. Bassi, "Policy Implications of Part-Time Employment", in *Journal of Labor Research*, vol. 14, no. 3 (Fairfax, VA: George Mason University, 1995), 315.

⁴⁶ Tilly, "Reasons for the Continuing Growth of Part-Time Employment", 10.

for only three percent of all part-time workers. Twenty years later the figure had risen to 5.5 percent.⁴⁷

Within the service industry, part-time employment can be divided into two categories: retained part-time jobs and secondary part-time jobs. Secondary part-time jobs are so named because they share many attributes with the secondary job market, namely low wages, little job security, and few opportunities for career advancement.⁴⁸ In 1992, Chris Tilly published a study he conducted of Boston and Pittsburgh retail and insurance firms. Tilly stated that secondary part-time jobs afford employers the opportunity “to gain advantages of lower compensation and greater scheduling flexibility.”⁴⁹ He also noted the significant majority of individuals working part-time in the service sector were secondary part-time workers. Tilly further contended that retained part-time jobs “are organized in primary labor markets featuring high wages, substantial skill levels, and employment stability.”⁵⁰ He concluded by asserting that retained part-time jobs “are designed by employers to retain or attract valued workers who prefer to work part-time.”⁵¹

In dividing part-time employment positions into two categories, employers in the service industries essentially created a two-tiered labor force. Those individuals with desirable, high skill and education levels are heavily pursued. Firms offer generous compensation packages to these individuals to procure their services. These workers,

⁴⁷ Lowell Gallaway, “Public Policy and Part-Time Employment” in *Journal of Labor Research*, vol. 14, no. 3 (Fairfax, VA: George Mason University, 1995), 306.

⁴⁸ U.S. Department of Transportation, “Equitable Transportation Access in the Journey to Work for Part-Time Workers”, ch 2, pg. 5.

⁴⁹ Chris Tilly, “Dualism in Part-Time Employment”, in *Industrial Relations*, vol. 31, vol. 2 (Cambridge, MA: Blackwell Publishers, 1992), 331.

⁵⁰ Tilly, “Dualism in Part-Time Employment”, 330.

⁵¹ *Ibid.*

however, are the lucky few. The vast majority of individuals within these fields are low skilled with little education. Employers – aware that full-time job opportunities have decreased relative to the number of contingent positions – take advantage of individuals’ desperation for work. During the last three decades of the twentieth century, individuals who previously worked full-time accepted alternative work positions that represented large pay cuts. In possession of the exact same skill levels as when they worked full-time, these individuals earn as little as 20 percent of their full-time salary and generally lose health benefits, pension plans, and job security in the process. In fact, some individuals – fired by their full-time employers – are subsequently rehired by a temporary agency or subcontractor and then returned to work for the exact same company performing the exact same tasks, only now for significantly reduced wages.⁵²

The growth in the service sector as a source of employment in the United States results in the employment terms and conditions and wages and benefits offered by the industry affecting an ever-increasing portion of the nation’s labor force. This is not necessarily a positive outcome. This sector generally offers very low wages and minimal, if any, job security and fringe benefits.

Employees in service jobs have twice the turnover rate of those in manufacturing and a higher percentage of part-time work. Characteristics employment practices support overall low wage and simultaneous increases in the size of the labor force that is expanded or contracted to meet fluctuations in demand. Thus, in the past two decades, labor costs have decreased while the number of workers has greatly increased. Eighty-nine percent of new jobs in 1985 were in the service-producing industries and fifty-nine percent were in the lowest paying

⁵² Miller, Benjamin, and North, *Economics of Public Issues*, 112.

areas...where the average weekly wage is less than half of that in manufacturing.⁵³

The growth in the workforce coupled with the decrease in labor costs indicate employees are systematically receiving lower pay. Moreover, in a study of 129 United States service sectors published in 1994, Joel Nelson concluded the occurrence and coverage of health and pension benefits offered to service industry employees lagged significantly when compared with those offered to manufacturing employees.⁵⁴ Thus, the explosion of the service industry, beginning in the 1970s and continuing today, caused a growth in the use of alternative workers, while at the same time expanding the low wages and compensation of this industry to a larger portion of United States workers.

As firms weighed the benefits and costs of employing alternative workers or hiring additional full-time staff, the expense of health and pension benefits as a percentage of the total cost of an employee played a major role in their decision. According to a study conducted by Rebecca Blank in 1990, “employers are far more likely to exclude part-time employees completely from fringe benefit plans than to include them in some pro-rated fashion. In general, most fringe benefits are received by only about one-half as many part-time employees as full-time employees.”⁵⁵ Since the majority of contingent workers do not receive benefits, an increase in the costs of benefits as a percentage of the total cost of employing a worker effectively makes alternative workers relatively cheaper than full-time workers.

⁵³ Kornbluh, “Historical Perspectives on Part-Time and Temporary Workers”, 17.

⁵⁴ Joel I. Nelson, “Work and Benefits: The Multiple Problems of Service Sector Employment” in *Social Problems*, vol. 41, no. 2 (Berkeley, CA: University of California Press, May 1994), 240.

⁵⁵ Blank, “Understanding Part-Time Work”, 148.

Fortunately, between the 1970s and early 1990s, the cost of benefits relative to the total cost of an employee grew explosively and inconsistently. This provides the perfect situation in which to examine the correlation between the relative cost of fringe benefits and changes in the absolute number and percentage of alternative workers employed. In 1973, health and pension benefits accounted for 12.82 percent of the cost of a worker. By 1981, the figure more than quadrupled to 16.51 percent. An eight-year period of virtually no growth followed this period of extremely rapid growth. Between 1981 and 1989, benefits as a percentage of total employee remuneration rose by only .06 percent. In the four years following 1989, however, the percentage again grew fairly rapidly, increasing to 17.81 percent of the cost of an employee.⁵⁶

Notably, as the relative cost of fringe benefits rose, employers substituted away from full-time workers and towards contingent workers. In 1973, 20 percent of employed individuals in the United States occupied part-time positions. Of those part-time workers, only 18 percent fit the United States Bureau of Labor Statistics' definition of an involuntary part-time employee. Between 1973 and 1981, the number of part-time positions grew rapidly, representing approximately 30 percent of new jobs. Individuals preferring to work full-time filled 51 percent of these new part-time jobs. In the nine years following 1981, as the growth in the cost of benefits slowed, the growth in part-time jobs also slowed in the United States. During this period, part-time jobs accounted for only 1.4 percent of new jobs. This is a decrease of 28.4 percent over the rate that prevailed during the vast portion of the seventies. Between 1989 and 1994, however, as the cost of benefits as a percentage of total employee

⁵⁶ Gallaway, "Public Policy and Part-Time Employment", 309.

remuneration again increased, so too did the number of part-time jobs. Between 1989 and 1993, involuntary part-time jobs accounted for approximately 65 percent of all new jobs in the United States.⁵⁷ Reinforcing the correlation of these parallel movements are the findings of Lowell Gallaway, published in a 1995 study. According to Gallaway, “a one percentage point increase in fringes as a percent of employee compensation increases the percent involuntary part-time employed by .57 percentage points. This translates into about 680,000 additional part-time jobs, all of which are involuntary.”⁵⁸ Based on these results, growth in the relative cost of fringe benefits played a significant role in the increase in employment of alternative workers.

From the perspective of the demand side of the labor market, we can conclude the rise in the United States in the number of alternative work arrangements since the 1970s results primarily from increased international competition and trade and increases in the cost of fringe benefits as a portion of total employee compensation. The increase in international competition led to – among other things – specialization by the United States in technologically advanced fields, the outsourcing and importation of labor-intensive, low-skill processes and goods, domestic firms reducing costs by eliminating full-time positions and increasing their employment of alternative workers, and an increase in the incidence of structural unemployment and the duration of unemployment spells.

With an understanding of the reasons for the growth in the employment of alternative workers in hand, I conclude the paper by detailing the most significant implications of this growth for both the economy and society of the United States. For contingent workers, the

⁵⁷ Gallaway, “Public Policy and Part-Time Employment”, 308.

⁵⁸ Gallaway, “Public Policy and Part-Time Employment”, 312.

profitability or economic stability of the firm at which they work does not determine their job security. Moreover, even if these employees are extremely productive, the likelihood of receiving a promotion or an increase in pay is remote.⁵⁹ Thus, since alternative workers have no stake in the future of a firm, they will also have no interest in helping the firm to survive and thrive. In describing the negative aspects of employing alternative workers, one supermarket manager cited “their loyalty to the position and the company...I’m talking about absenteeism, ...tardiness, shrinkage [theft], attitude.”⁶⁰ It follows that contingent workers will have no motivation to put forth any extra effort beyond the minimum required of them and will not care about the quality of the good they produce. If their substandard work causes the firm to shut down, they can simply move on to next firm. This decrease in worker productivity could have long-run negative effects on the economic output of the United States.

A second negative implication of the growth in alternative workers is the uncertain duration of the employer-employee relationship makes employers unwilling to invest in any on the job training not directly related to contingent workers’ current positions. This type of job-specific training enhances current productivity, while at the same time limiting the extent to which workers can take their new skills to other firms and employment. Employers utilizing alternative work arrangements shy away from any type of general training or skill improvements for these employees. The firms realize their relationship with a given employee is for a limited time, and once the relationship is terminated, they will no longer derive benefit from the training they provided their employees. This lower benefit means firms are willing

⁵⁹ 9 to 5, National Association of Working Women, “Working at the Margins: Part-Time and Temporary Workers in the United States”, 28.

⁶⁰ Tilly, “Dualism in Part-Time Employment”, 334.

to incur less cost with regards to employee training, for firms are always equating marginal costs and benefits in making their business decisions. Moreover, these employers are cognizant that, should their workers find future employment with their competitors, these general improvements in worker skills may ultimately provide benefit to their competitors.⁶¹ Again, this decrease in human capital reduces long-term domestic productivity improvements and wage growth. This may result in the United States being unable to compete in high-tech industries and end up with a large group of second-class workers mired in low paying jobs with no hopes of advancement. Supporters of the system of contingent workers argue that the system developed as a necessary economic response to the changes in the United States workforce over the past thirty plus years. They insist as workers develop affinity for certain corporations and jobs both employers and employees will be motivated to find permanent positions for these individuals, which offer job security, better pay, and more comprehensive benefits packages.⁶² While this might occur for an occasional worker, I found no evidence to indicate the transition of contingent workers to full-time workers is a widespread phenomenon.

Another negative aspect of the growth in contingent work arrangements that I have touched on throughout the paper is the lack of provision of health care coverage for the majority of these workers. Only 46 percent of temporary workers have health coverage, which is significantly less than the 83 percent coverage for the rest of the workforce. Other forms of alternative work have better coverage, but are still below normal in terms of percentage covered. 82 percent of contract-firm workers, 73 percent of independent

⁶¹ National Commission for Employment Policy, “Employer Strategies for a Changing Labor Force: A Primer on Innovative Programs and Policies”, 6.

⁶² Miller, Benjamin, and North, *The Economics of Public Issues*, 116.

contractors, and 67 percent of on-call workers have some type of coverage.⁶³ Moreover, a 1984 study

by the Employee Benefits Research Institute (EBRI) estimates that only 15.6 percent of all part-time workers have direct health coverage under an employer group plan, while another 42 percent of part-time workers have health insurance coverage through a spouse's employer group plan.⁶⁴

This lack of coverage places a strain on both the individual and society, which could have been easily avoided. Individuals without health care are much less likely to visit a doctor for regular, preventative check-ups. By foregoing fairly inexpensive check-ups, these individuals allow diseases and ailments to progress to the point where they require expensive emergency care for which society must ultimately foot the bill.⁶⁵

Similarly, alternative workers are significantly less likely to receive any form of pension benefits. Of the general United States workforce, 53 percent is eligible for some form of employer-based pension. In stark contrast, only 10 percent of temporary workers, 27 percent of on-call workers, and 48 percent of contract firm workers are eligible for employer-based pension plans.⁶⁶ If this growing class of alternative workers – excluded from employer-provided pensions – fails to make some sort of private provision for their retirement, the United States government likely will see increased burdens placed on social services for the elderly once these workers reach retirement age. As Allan Greenspan highlighted in a February 2004 address to Congress, the nation's social security system is already in dire

⁶³ Carré, "Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses", 4.

⁶⁴ 9 to 5, National Association of Working Women, "Working at the Margins: Part-Time and Temporary Workers in the United States", 21.

⁶⁵ Committee on the Consequence of Uninsurance, Coverage Matters – Insurance and Health Care (Washington, D.C.: National Academy Press, 2001), 30.

⁶⁶ Carré, "Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses", 4.

straits. The retirement of large numbers of alternative workers with no pensions plans will only compound the problems of the already troubled system.

While these drawbacks should alarm alternative workers and society alike, many contingent workers face a much more basic concern, finding a way to get to work. As previously discussed, temporary workers on average receive lower wages than their full-time counterparts and, thus, are less likely to own an automobile. Individuals who do not own automobiles need to locate alternative forms of transportation to work. Public transportation in the vast majority of the nation's cities, however, is designed to meet the needs of the traditional worker who commutes to work in the morning between the hours of six and nine and commutes home between the hours of four and seven in the evening.⁶⁷ If temporary workers' hours do not correspond to these peak travel times, they face significantly reduced public transportation schedules. Carpooling presents a similar dilemma, as it requires workers to commute at a common time.⁶⁸ Constant changes in the hours and locations of work only exacerbate these problems for alternative workers.

In addition to its tangible shortcomings, alternative work arrangements also extract a psychological toll from those who engage in this form employment. Temporary agency workers, on-call workers, and short term direct hires are significantly more likely to be unemployed and to involuntarily leave the labor force for both short and long periods of time. Research has shown the inability of these individuals to find and retain work weighs heavily on their psyche, resulting in clinical depression and strain on personal relationships. The

⁶⁷ U.S. Department of Transportation, "Equitable Transportation Access in the Journey to Work for Part-Time Workers", ch. 2, 14-15.

⁶⁸ U.S. Department of Transportation, "Equitable Transportation Access in the Journey to Work for Part-Time Workers", ch. 5, 4.

instability of the various forms of alternative jobs also puts undue strain on families, especially single parent families, because basic needs such as childcare are constantly changing along with the hours and location of a worker's employment.⁶⁹

In conclusion, the growth in alternative work arrangements presents the United States government and its citizens with a mixed bag of positive and negative effects. Numerous individuals, including retained and voluntary part-time workers, chose to engage in alternative work arrangements, which offer the time demands and compensation they desire. Others, however, would prefer to work as traditional full-time workers but can only obtain alternative work. For the majority of these contingent workers, the end result is significantly reduced wages and no pension plan, health care coverage, or job security. When individuals voluntarily chose alternative work arrangements, they allow firms to cut costs and to deal more flexibly with fluctuations in international competition and economic conditions. When individuals accept alternative work as a last resort, however, firms gain these same advantages, but now, at the expense of these workers. The challenge now facing the nation's government is to develop a strategy to address the problems associated with alternative work arrangements without completely eliminating the benefits these arrangements afford the economy and individual workers and firms. The policy the government adopts, if any, and the timeframe within which the policy is implemented remains to be seen.

⁶⁹ Carré, "Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses", 5.

BIBLIOGRAPHY

- 9 to 5, National Association of Working Women. "Working at the Margins: Part-Time and Temporary Workers in the United States". Report prepared by Virginia duRivage. Cleveland, OH, 1986.
- Bassi, Laurie J. "Policy Implications of Part-Time Employment". *Journal of Labor Research*. Vol. 14, no. 3. Fairfax, VA: George Mason University, 1995.
- Blank, Rebecca M. "Understanding Part-Time Work". *Research in Labor Economics – Labor Economics and Public Policy*. Vol. 11. Greenwich, CT: Jai Press Inc., 1990.
- Carré, Françoise J. "Temporary and Contracted Work in the United States: Policy Issues and Innovative Responses." in *Changing Labour Market and Gender Equality: The Role of Policy*. High level Conference organized jointly by the Organisation for Economic Co-operation and Development (OECD), the Ministry of Children and Family Affairs and the Ministry of Labour and Government Administration held in Oslo, Norway, 12 and 13 October 1998.
- Committee on the Consequences of Uninsurance. *Coverage Matters – Insurance and Health Care*. Washington, D.C.: National Academy Press, 2001.
- Cox, Michael W, and Richard Alm. *Myths of Rich and Poor: Why We're Better off than We Think*. New York: Basic Books, 1999.
- Gallaway, Lowell. "Public Policy and Part-Time Employment". *Journal of Labor Research*. Vol. 16, no. 3. Fairfax, VA: George Mason University, 1995.
- Haslag, Joseph H., William R. Russell, and Daniel Slottje. *Macroeconomic Activity and Income Inequality in the United States*. Greenwich, CT: Jai Press Inc., 1989.
- Krugman, Paul R., and Obstfeld, Maurice. *International Economics: Theory and Policy*, 6th Edition. Boston: Addison-Wesley, 2003.
- Miller, Roger LeRoy, Daniel K. Benjamin, and Douglass C. North. *The Economics of Public Issues*, 11th Ed. New York: Addison Wesley Longman Inc., 1999.
- Miller, Roger LeRoy and Shannon, Russell. *The Economics of Macro Issues*, 5th Ed. St Paul, MN: West Publishing Co., 1986.
- National Commission for Employment Policy. *Employer Strategies for a Changing Labor Force: A Primer on Innovative Programs and Policies*. Research Report Number 90-01. Report prepared by Adam Seitchik, Jeffrey Zornitsky, and Christopher Edmonds. Washington, D.C., 1990.

National Commission for Employment Policy. *A Changing Nation – Its Changing Labor Force*. Research Report Number 91-04. Washington, D.C., 1991.

National Commission on Employment and Unemployment Statistics. “The Implications of Changing Family Pattern and Behavior for Labor Force and Hardship Measurement”. Background Paper No. 16. Report prepared by Harold W. Watts and Felicity Skidmore. June 1978.

Nelson, Joel I. “Work and Benefits: The Multiple Problems of Service Sector Employment”. *Social Problems*. Vol. 41, no. 2. Berkeley, CA: University of California Press, May 1994.

Prachowny, Martin F. J. *Working in the Macroeconomy: A study of the US Labor Market*. New York: Routledge, 1997.

Programme for Research and Actions on the Development of the Labour Market. *Analysis of the Dynamics of the Job Creation Process in the United States and an Evaluation of Medium and Long Term Prospects, Vol. 1: The Role of Demographic Factors in US Job Creation – Performance Since 1970*. Report by Rodney Stares. Luxembourg: Office for Official Publications of the European Community, 1987.

Tilly, Chris. “Dualism in Part-Time Employment”. *Industrial Relations*. Vol. 31, no. 2. Cambridge, MA: Blackwell Publishers, 1992.

Tilly, Chris. “Reasons for the Continuing Growth of Part-Time Employment”. *Monthly Labor Review*. Vol. 114, no. 3. March 1991.

Ullmann, John E., ed. *Social Costs in Modern Society: A Qualitative and Quantitative Assessment*. Westport, Connecticut: Quorum Books, 1983.

U.S. Department of Labor. *The Changing Labor Market and the Need for a Reemployment Response*. Washington, D.C., 1993.

U.S. Department of Labor. Bureau of Labor Statistics. *Major Collective Bargaining Agreements: Subcontracting*. Bulletin No. 1425-8. Report prepared by Leon E. Lunden, Theresa Ellis, and Ernestine Moore. Washington, D.C.: GPO, April 1969.

U.S. Department of Labor. Office of the Secretary. Women’s Bureau. *Flexible Workstyles: A Look at Contingent Labor (Conference Summary)*, 1988.

U.S. Department of Transportation. Federal Highway Administration. Office of Highway Policy Information. “Equitable Transportation Access in the Journey to Work for Part-Time Workers”. Report prepared by the Joint Center for Political and Economic Studies. May 1998.

