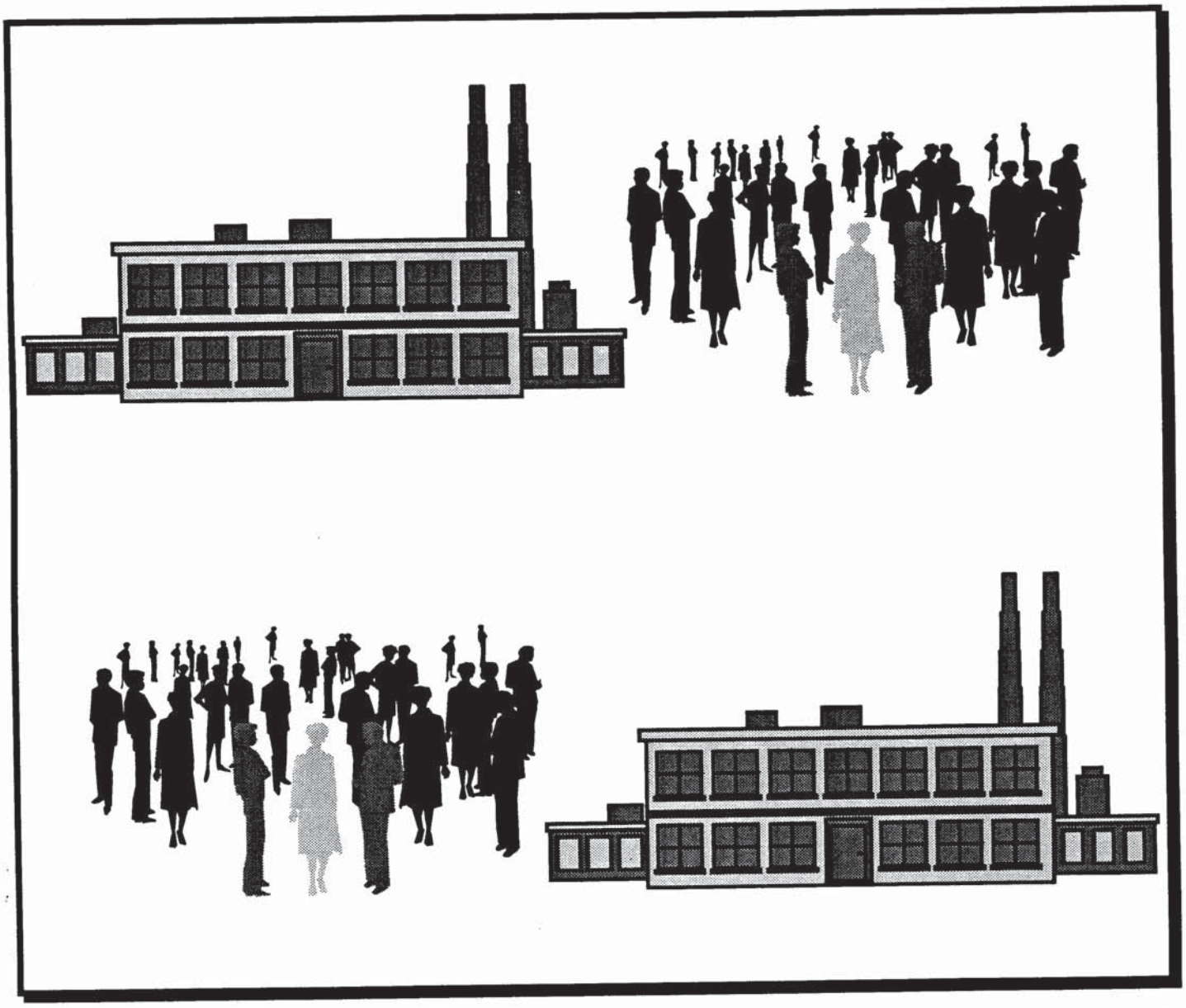
A STUDY OF TEMPORARY AND PART-TIME EMPLOYMENT IN KENTUCKY (HCR 10)



Research Report No. 264

Legislative Research Commission
Frankfort, Kentucky
January, 1994

A STUDY OF TEMPORARY AND PART-TIME EMPLOYMENT IN KENTUCKY

(House Concurrent Resolution 10)

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LRC STAFF: Vinson Straub, Dan Jacovitch, and Ginny Wilson

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FOREWORD

House Concurrent Resolution 10, passed during the 1992 Session of the Kentucky General Assembly, directed the Interim Joint Committee on Labor and Industry to study employers' use of part-time and temporary workers in Kentucky. In particular, the resolution directed the development of information regarding the nature of fringe benefits, if any, which are made available to such workers. Findings of the study were presented to the Subcommittee on Job Training, Licensing & Apprenticeship on October 12, 1993. The Committee on Labor and Industry accepted the report later that day. The Report was prepared by Vinson Straub, Dan Jacovitch, and Ginny Wilson, and was edited by Charles Bush.

Vic Hellard, Jr.
Director

The Capitol
Frankfort, Kentucky
January, 1994

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SUMMARY

House Concurrent Resolution 10, passed during the 1992 Session of the Kentucky General Assembly, directed the Interim Joint Committee on Labor and Industry to study employers' use of part-time and temporary workers in Kentucky. In particular, the resolution directed the development of information regarding the nature of fringe benefits, if any, which are made available to such workers.

The organization of the resultant report is as follows. First is a brief review of some of the most significant forces behind recent changes in labor markets which have affected the use of temporary and part-time employment. Second is a description of employment trends at the national and state levels for those in the part-time labor force, as well as employees of temporary help service (THS) agencies, who may be working in either full-time or part-time placements. Kentucky State Government employment is also examined. Finally, current data on benefits available to part-time and temporary workers is presented. In addition, results are presented from a survey of Kentucky temporary help service establishments, which was conducted as a part of this study.

Six questions were included in the resolution. These questions and a brief summary of the reported findings are presented below. (Note: The questions are slightly rephrased for the sake of exposition.)

(a) To what extent are contingent workers (includes part-time and temporary workers. Defined fully in Chapter 1) utilized in the private and state government workforce? In the most recent data available, part-time workers accounted for 20% of the Kentucky work force and those employed through THS agencies accounted for one percent. In FY 1992, part-time workersaccounted for approximately 10 percent of the state government work force and seasonal and temporary full-time workers accounted for approximately 4 %.

(b) Is the use of contingent labor a growing trend in Kentucky, compared to the U.S.? In general, the trend of contingent labor usage in Kentucky mirrors the national trend. Prior to 1992, Kentucky had slightly more workers who were involuntarily part-time than the U.S. Kentucky also has fewer workers placed through THS agencies.

(c) What fringe benefits are offered to contingent workers? All categories of contingent workers are less likely to have access to fringe benefits than comparable full-time permanent workers. The benefits most likely to be offered to private contingent workers are paid holidays and vacations. Medical insurance, life insurance and retirement plans are the benefits least likely to be offered to private contingent workers. Conversely, public contingent workers are more likely to be offered insurance and retirement programs than paid holidays and vacations. Of the contingent workers in Kentucky state government, part-timers compare very favorably with full-timers, with the only restriction being a need for 100 or more hours per month to qualify for annual

and sick leave. Temporary employees, however, are not eligible for health insurance, annual leave, or retirement.

(d) What type of fringe benefits are needed? "Need" is difficult for the researcher to discuss, since defining need includes value judgments. However, two pieces of information may inform the policy discussion. First, it is clear that contingent workers are far less likely to have access to those benefits which, by their absence, represent the greatest risk of major financial disruption, such as medical insurance, life insurance and retirement plans. Second, it should be noted that, just as it prevents state regulation of benefits for most non-contingent workers, the federal ERISA (Employee Retirement Income Security Act) is likely to limit the ability of state lawmakers to mandate the provision of particular benefits to contingent workers. Of course, decisions regarding the benefits made available to contingent workers in state government remain under the purview of state legislators.

(e) Are any additional state protections necessary for contingent workers? A review of Kentucky and federal law indicates that contingent workers are afforded all of the same statutory protections currently applicable to permanent full-time workers. This is true even though contingent workers may receive fewer financial benefits from such protections. For example, a contingent worker will not necessarily receive unemployment insurance benefits. The reason however, would be an inadequate number of hours worked, rather than a difference in the protection afforded under the statute. Thus, the question of whether additional state protections are necessary for contingent workers might better be phrased as whether additional state protections are necessary for all workers, or whether the eligibility requirements for state employment programs should be changed.

(f) Should increased employment of contingent labor be encouraged or discouraged as a matter of public policy? This staff report cannot offer a recommendation regarding the preferred direction of public policy in this matter. However, the following information is offered to assist policy makers in that determination. The first point to note is that the growth of contingent labor is a function of changes in the characteristics of both labor supply and labor demand. The three major forces driving the increase in contingent labor arrangements are demographic changes in the make-up of the work force, the internationalization of the U.S. economy, and technological changes in the work place. These forces are largely outside of the realm of influence of state policy makers. This circumstance opens up the possibility that an unintended effect of attempts to mandate changes on the private contingent labor market might be to make state contingent labor less attractive to firms, who may then choose to reduce the scope of Kentucky operations rather than hire more full-time permanent employees.

However, many workers in contingent arrangements prefer such arrangements and would not be in the work force if their only option were permanent full-time work. Therefore, policy makers may want to target policy proposals more directly toward those who are in contingent work arrangements involuntarily. Given the difficulties

associated with regulating the entire contingent labor market, it may be that the most direct method of assisting those in involuntary contingent employment is for the state to implement programs designed to help improve work-related skills. This effort would help those who so choose to more effectively compete for permanent full-time positions, which are more likely to offer the desired fringe benefits.

If the goal is to improve the benefits offered to contingent workers, another possible approach is for state government to offer the desired set of benefits to its own contingent workers. This step would set the standard that policy makers would like to establish, and would put direct market pressure on other employers of contingent labor to match state-offered benefits or find themselves at a disadvantage in competing for high-quality contingent workers. Finally, the policy question of whether state government itself should employ contingent workers in greater or fewer numbers is not considered to be within the purview of staff researchers.

INTRODUCTION

The research on temporary and part-time employment undertaken in this study is the result of House Concurrent Resolution 10, passed during the 1992 Session of the Kentucky General Assembly. The resolution directed the Interim Joint Committee on Labor and Industry to study these two forms of what is referred to more broadly in the literature as "contingent employment" (which also includes leased employees, independent contractors, job sharing and other work alternatives).

The chapters which follow explain the forces behind the growth of temporary and part-time employment. Included is a description of employment trends at the national and state levels for those in the part-time labor force, as well as employees of temporary help agencies, who may be working in either full-time or part-time placements. Kentucky State Government employment is also examined. Current data on benefits available to part-time and temporary workers is presented. In addition, results from a staff survey of Kentucky temporary help service establishments are presented.

CHAPTER I

AN OVERVIEW

Contingent Labor

According to Shirley Smith, demographer with the Bureau of Labor Statistics (Smith 1986, 7), the 40-hour, 5-day workweek dates back to the passage of the Fair Labor Standards Act of 1938, which "established a standard workweek of 40 hours duration for non-supervisory employees of firms engaged in interstate commerce". Smith points out that this standard has become the social norm for a majority of all salaried workers and for approximately two-thirds of those working full-time. Despite the stability of the standard workweek for most employees, Smith notes, various work scheduling options, including part-time and extended hours, emerged between 1973 and 1985.

Part-time and temporary employment form two segments of what labor economists have come to call the "contingent workforce". Other components include such work alternatives as leasing of employees, independent contracting, self-employment, and home-based work. The phrase "contingent employment relationships" comes from a 1985 conference on employment security. The term was used by Audrey Freedman to "connote conditionality":

> **...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. (Polivka and Nardone 1989, 10)**

Generally, contingent employment implies a lack of attachment between the worker and employer; operationally, it has come to mean any employment arrangement other than full-time, permanent, wage and salary status. The problem with this definition is that many part-time workers have a fairly long-term relationship with their employer. "In January 1987, half of all part-time workers ages 25 and older had 3.9 years or more tenure with their current employers. This is about 80% of the median tenure of full-time workers." (Polivka and Nardone 1989, 10)

Nardone and Polivka, economists with the Bureau of Labor Statistics, propose a definition of contingent work as follows: "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" (Polivka and Nardone 1989, 11). A fundamental point to bear in mind is that contingent work represents a significant departure from the traditional bond between employer and employee, which included real and implied obligations on both parties. Labor economists Christensen and Murphree (Christensen and Murphree 1988, 2) provide three elements that distinguish contingent work from traditional employment:

(1) **time, how long and when people work is different from the standard workweek,**

(2) **contingent work involves something other than a permanent relationship between employers and employees, and**

(3) **the social contract between employer and employees, alluded to above, is often reduced in its application to include only the obligation to pay for work performed and deliberately excludes all or most benefits and worker protections not required by law.**

Although the categories of employment data collected by the Bureau of Labor Statistics (BLS) do not provide for an exact count of contingent labor, Richard Belous provides reasonable estimates through the use of proxies. Table 1 indicates the growth over a nine-year period of four components of contingent labor: part-time, temporary, business services, and self-employed (all numbers are provided by BLS). The number of temporary workers is based on the number of people employed in SIC 7363 (Help Supply Service Industry), a proxy which somewhat overestimates the actual number by including people working in the operations of the temp agencies themselves, and somewhat underestimates by excluding those people working as temporaries without enlisting a help-supply service (or temp agency); the net effect is most likely a significant underestimation of temporary help.

Table 1

Growth of the Contingent and Total Labor Force

	Millions of Workers		Percent
	1980	1988	Change
Total Civilian Labor Force	106.9	121.7	14 %
Part-time workers	16.3	19.8	21
Temporary workers	0.4	1.1	175
Business Services	3.3	5.6	70
Self-employed	8.5	10.1	19

Source: Richard Belous, "The Contingent Economy: The Growth of the Temporary, Part-time and Subcontracted Workforce.

The four measured components of contingent labor shown in Table 1 cannot be simply summed to arrive at the total number of contingent workers since the components are not mutually exclusive: some people counted as part-time are also temporary workers; also, many of those in the business-services classification are self-employed. These estimates do, however, have value in showing that all measures of contingent labor indicate significantly faster growth than that of the overall civilian labor force.

Part-time labor is the largest component of the contingent workforce. The BLS defines part-time employment as less than 35 hours per week, with the average "part-timer" working 20 hours per week. Two-thirds of part-timers are women and about 30% are involuntary, or desirous of full-time employment but unable to find it. Together, service and retail trade employ over 65% of part-timers. (Belous 1989, 21)

Temporary Labor is the fastest growing segment of the contingent labor market, although it is still a small portion of the total. Temporary employment includes all jobs held for a limited time. Women constitute roughly two-thirds of temporary employees. Approximately 70% of temporary workers are classified as administrative support, unskilled blue-collar, or service; 17% can be classified as managerial, professional, technical, or skilled blue-collar. Of the companies surveyed in a 1987 survey by the Administrative Management Society, 91% used some temporary help. In another survey by the Bureau of National Affairs 65% of the companies responding indicated that agency temporaries were "very important" or "somewhat important" in their efforts to improve human resource flexibility. (Belous 1989)

Before proceeding to examine contingent labor trends in detail, it may be good to identify existing legal protections for the full-time workforce. The following summary pertains only to Kentucky, although all states participate in several of the programs mentioned, including Unemployment Insurance, Workers' Compensation, Social Security, and Occupational Safety and Health.

Kentucky Worker Protection Statutes

State laws require provision of certain protections to most full-time employed workers, whether in the public or private sector. Principal among these are the federal/state unemployment insurance program (KRS 341.050), the state workers' compensation program (KRS 342.610), and federal social security (KRS 61.410 and the Social Security Act, 1935, Title II).

Unemployment Insurance

Unemployment insurance (UI) coverage includes any service performed by (a) an individual "who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee, (b) an officer of a corporation, and (c) an individual who performs service for remuneration for any employing unit." Although most employers must participate in UI coverage, major non-covered activities include most agriculture and domestic labor (see KRS 341.055). Additionally, the percentage of workers eligible for UI benefits has declined in recent years. A 1990 study by economist Marc Baldwin and labor attorney Richard McHugh for the Economic Policy Institute found that only 38% of unemployed workers nationwide received UI benefits in 1990, compared to 75% in the 1974-75 recession.

In regard to temporary or part-time employment, a major barrier to eligibility in many cases will be the problems presented by an irregular work history, low earnings, or both. To be eligible for UI benefits, an unemployed worker must file a claim, register for work with the local employment office, be physically and mentally able to

work, available for work, and have had wages of at least $750 in the highest quarter of his base period (the first 4 of the last 5 completed calendar quarters), total base period wages not less than one and one-half times wages paid in the high quarter, and a minimum of $750 earned outside the high quarter during the base period. Those who work in covered employment but do not have sufficient income in their base period to meet this earnings test do not qualify for unemployment insurance benefits. For qualifying individuals, the maximum weekly benefit amount is $219.00, but it may be as little as $22, depending on the claimant's base-period wages. In Kentucky during calendar year 1992, the average weekly benefit amount was $144.43 and the average number of weeks paid 12.9.

Workers' Compensation

Workers' compensation(KRS Chapter 342) premiums are required of (1) any person (with the exception of one engaged solely in agriculture) who has in this state one or more employees and (2) all political subdivisions of the state that have one or more employees. Again, the agricultural sector is a notable exception to the protection afforded by workers' compensation. Employees include every person, "in the service of an employer under any contract or hire or apprenticeship, express or implied...every executive officer of a corporation...every person in the service of the state or of any political subdivisions...and every person regularly selling or distributing newspapers." Thus, part-time and temporary workers are provided medical rehabilitation services and monetary awards to partially replace lost wages; however, weekly payments from any award are likely to be less for contingency workers than for most full-timers because the amount is based upon the individual worker's wage history.

Social Security

Kentucky state government administers collection of Social Security Act funds for state and local government employees (KRS 61.410). Private sector contributions are collected at the federal level under authority of the Federal Insurance Contributions Act, (Title 26, Subchapter A, Section 3101) from all employers. Besides retirement payments, Social Security includes payments to survivors upon the death of a principal "breadwinner" in a family unit, as well as payments to blind and disabled persons regardless of age. Social Security taxes are levied against a worker's pay, irrespective of part-time or full-time status. Currently, the rate is 7.65% of gross wages (the employer matches this amount). The Old Age, Survivors, and Disability portion is 6.45% of earnings up to $57,600. The Medicare portion adds another 1.20% and extends to earnings up to $135,000.

Other Rights and Protections

Kentucky administers the federal occupational safety and health laws. KRS 338.031 requires every employer to "furnish safe employment and a safe work site to his employees, and to comply with rules and regulations of this chapter. Each employee shall comply with occupational safety and health standards applicable to his own actions and conduct." Kentucky generally adopts federal regulatory guidelines and revisions as they become effective at the federal level.

Discrimination in payment of wages based on sex is prohibited by KRS 337.423. It is also unlawful for an employer to discriminate on the basis of an individual's disability, race color, religion, national origin, sex, or age between forty and seventy (KRS 344.040).

Significant exceptions to the law requiring payment of the minimum wage (KRS 337.225) include all state workers, as well as employees who receive their pay partially from tips (in which case the employer must prove that tip income plus salary is at least equal to the minimum wage), agricultural workers, small retailers, and many domestic laborers (a complete listing is set forth in KRS 337.012(2)(a). Part-time employment is a common characteristic for several of these occupational groups, particularly in retail, as will be shown in later discussion.

A reasonable period for lunch must be provided to employees (KRS 337.355), to occur no earlier than three hours after a work shift commences, nor later than five hours from the start of the shift. A ten-minute rest period is required after each four hours worked (KRS 337.365). No deductions in pay for hourly or salaried employees is permitted to offset break time.

The Employee Retirement Security Act (ERISA, 1974) is a federal law designed chiefly to protect the rights of employees who participate in private pension and benefit plans and which sets certain standards for all such plans in regard to vesting, funding, disclosure of terms, and the mutual obligations of employees and employers. Important exclusions to ERISA coverage are retirement and benefit plans offered through state and local government and churches. Self-employed persons who establish their own plans are also excluded from ERISA protections.

ERISA supersedes or "preempts", state laws relating to employee benefit or pension plans by prohibiting states from: (1) requiring that employers provide health benefits or insurance to employees, (2) regulating the terms and conditions of employee benefit plans, and (3) taxing or assessing employee benefit plans. While states are permitted to tax and regulate traditional insurance carriers, the Supreme Court has ruled (Met. Life, 471 U.S. 724, 1985) that self-funded plans are not subject to state regulation. According to Butler (August 1992), over half of U.S. workers are employed by self-insured businesses.

Concerning the application of ERISA to part-time employment, the Act requires employers to include all employees who work at least 1,000 hours in a one-year period in their pension plans. Because of this vesting right, many employers limit the number of hours of part-time or temporary workers to less than 1,000 hours annually (Kahne, 1985). Company pension plans may also exempt workers who are hired within five years of normal retirement age (customarily age 60), according to Kahne (1985), who also notes that this exclusion can result in lower compensation-a disincentive to employment for older workers.

Provision of Fringe Benefits

Aside from the mandated worker protections previously mentioned, Kentucky statutes are silent concerning other benefits private employers may offer either full or part-time employees. Health, disability, and life insurance, as well as vacation and sick leave, are examples of fringe benefits an employer may provide voluntarily. Pension

and stock ownership plans are other examples of "fringes" which may or may not be available, at the option of the private employer.

CHAPTER II

THE ECONOMIC REASONS FOR CONTINGENT LABOR

The growth of contingent labor is the result of an interplay of supply and demand for labor. The composition of the labor force supplied has changed greatly, mostly in gender and age, over the past thirty years. With this change in composition, has come a change in the set of worker preferences brought into the workforce.

At the same time, the demand for labor has been affected by shifts in the industrial mix of the U.S. economy and increased competition from abroad. By the nature of their operations, service and retail businesses rely more on contingent labor; the alternative would mean inefficiencies and higher prices for the consumer. Likewise, the globally competitive manufacturing firm needs a work force that can respond quickly to changes in the market demand for its products. And finally, new technologies in the workplace are requiring a different skill-mix of labor, in some cases reducing the level of attachment between the employer and employee.

Supply of Contingent Labor

It is often assumed that most people in the contingent workforce would take a permanent full-time job if one were available. However, the shift to contingent employment in the labor market is not entirely demand-driven: demographic changes in the workforce have been a definite factor in increasing the supply of contingent labor.

Factors Having a Positive Impact on Supply

The demographics of the workforce have changed substantially in recent years. More women and elderly have a desire or need to be in the labor force. The mass entrance of women into the labor force has had two distinct impacts relating to contingent labor supply: an increase in the number of two-income households, and an increase in the prominence of family issues in the employment decision.

The greater number of two-income households has made flexible work arrangements financially *feasible*. A two-income household provides the opportunity for one individual to test a new career through a contingent arrangement while the family still meets financial obligations. Conversely, the loss of a job in a fully extended two-income household can create a situation where the unemployed individual looks for a job while the still-employed person seeks a second "moonlighting" contingent job.

Moreover, the greater importance of family issues in the workplace makes flexible work arrangements *desirable*, and in some cases necessary. "In order to meet family, school, or other non-work responsibilities, many workers may need more flexible schedules than can typically be found in permanent work arrangements." (Polivka and Nardone 1989, 13)

The aging of the workforce also has an impact on contingent labor, in two principal ways: retired workers seeking supplemental income, and workers with diminished physical capacity. The experience of retirees makes them attractive to employers, and the prospect or reality of insufficient Social Security and other retirement income makes supplemental income important for the retiree. A healthier elderly population makes work increasingly feasible, but the realities of a still somewhat diminished physical capacity lessen the likelihood of that work being full-time and permanent.

According to Thomas Nardone (Nardone 1992), 1991 data indicate women aged 25 to 54, and young people aged 16 to 24, make up 71% of all part-time workers; the remaining large segment - workers older than 55 - make up nearly 20%. Nardone believes women and youth use the flexibility such work offers to meet family and school responsibilities, while such employment offers older workers additional income. Deutermann and Brown (Deutermann and Brown 1978) believe public policies, such as student assistance programs and the limited earned income allowance in the social security program, create incentives for those groups to enter the workforce on a contingent basis.

Factors Having a Negative Impact on Supply

An individual's desire to be part of the contingent workforce, due to any of the factors noted above, may be tempered by the general nature of contingent jobs available. Traditionally, contingent jobs have been in low-paying, unskilled occupations. Chris Tilly (Tilly 1992) describes "good" part-time jobs as being within a primary job market in which employers consciously act to retain quality workers through accommodating their need for part-time schedules, flextime, and other work-related accommodations. Such employees often receive pay and fringe benefits equivalent to those of full-time employees. However, Tilly offers evidence that part-time employment has split along two paths. In contrast to "good" part-time work found by "retention part-timers", another group is employed in a secondary labor market in which part-timers "receive reduced fringe benefits and in some cases lower hourly pay than full-timers." In another analysis of the growth in part-time employment, Tilly (Tilly 1991) discovered that much of the increase since 1969 has been due to additional involuntary part-time employment. Most of this involuntary part-time work is within the secondary labor market described previously, and "characterized by low skill requirements, low pay and fringe benefits, low productivity and high turnover."

Similarly, Callaghan and Hartmann (1991) think the rise in the number of contingent workers "indicates that employers are opting for a low-wage, high turnover staffing strategy." Among the disadvantages to these workers are: (1) lower wages, in 1990, average pay of $5.06 per hour for part-timers compared to $8.09 for full-time, (2) lack of, or limited access to, such worker protections as unemployment insurance, pensions, occupational safety and health requirements, or union representation, and (3) limited health care benefits, or none at all.

Demand for Contingent Labor

Factors Having a Positive Impact on Demand

The growth of the service and retail sectors, with their need to deal with peak demand periods during a day, has been a significant factor in the growth of demand for part-time labor. The inability of most service organizations to inventory their product prevents them from being able to maintain smooth operations. Staff must be available when customer demand for the product is present. For example, restaurants may have peak business between 11:00 AM and 1:30 PM and between 5:00 PM and 7:30 PM. Part-time staffing is the only cost-effective way to meet this demand. Companies that fail to use part-time labor not only may be facing excess costs due to overstaffing, they are also ignoring a substantial component of the labor force which desires part-time work. This may necessitate the paying of higher wages. (Belous 1989, 24)

Another driving force behind the increase in demand for contingent labor is the lower profit margins resulting from increased international competition. Prior to the increase in competition, the costs of slack time related to traditional full-time staffing could be covered by higher-priced products. If all the competitors in the U.S. market practiced traditional staffing strategies, profit margins could be maintained without resorting to contingent labor. However, in a global economy, international competitors with lower wages and contingent staffing arrangements are in direct competition with U.S. companies.

One response to increased competition has been to concentrate on development of systems that allow for minimal "tying up" of resources. As such, the growing demand for contingent labor can be considered an extension of the widespread growth in adaptations of "just-in-time" inventory systems. The general strategy is to develop a highly controlled process that enables the near-elimination of idle resources. Lower costs come as a result of a combination of reductions in idle time, compensation, administration, and training. Paired with these lower costs is the flexibility to respond quickly to nonsystematic changes in demand. (Polivka and Nardone 1989, 12) The "just-in-time" concepts that were initially applied to raw materials of manufacturing systems are now being applied to human-resource systems. (Belous 1989)

By using contingent technical professionals, companies can also gain access to project-specific talent that would be too expensive on a permanent basis. Small and medium-size firms trying to compete in a technical environment cannot operate without access to the latest technologies. The effort or investment required for staying abreast in-house of technical developments is too expensive for all but the largest employers. This limitation is fueling the growth of the professional or technical temporary workforce. High-risk projects create a need for contingent staffing as well. By reducing the level of committed costs, temporaries in effect increase the risk threshold, thus allowing for more adventurous projects to be undertaken.

The increased use of "outsourcing" is another response to heightened competition. Outsourcing is a strategy adopted by firms that have chosen to concentrate on small, key portions of their operation. These key segments of their operation are either ones that have proved to be critical to their survival, or ones they

have a unique ability to perform well. Such key parts of the "value chain" are kept in-house, while most of the remaining activities are outsourced. Some areas for outsourcing include personnel, payroll, accounting, management information systems, and subassembly. Some of the large temporary-help-supply firms are taking advantage of this trend, and are now offering the service of staffing and managing entire departments within organizations. (Avery 1992, 71)

Companies also use temporary employee arrangements as a personnel screening tool. "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 to identify good candidates for regular jobs." (Polivka and Nardone 1989, 12) Completed in 1988, this study does not reflect the latest corporate downsizing: the screening function of contingent employment is likely not as prevalent in times of downsizing.

Automation has increased the demand for both skilled and unskilled contingent labor in the following ways. With regard to unskilled labor, office systems are becoming more user-friendly and standardized in their interfaces. A system might be built around a suite of Microsoft products. This availability of standardized, powerful tools in the office diminishes the value of the traditional long-term office worker who knows the "ins and outs" of the old system. At the same time, it increases the potential for effective software training on a mass scale, such as that provided by the more aggressive temporary-help-supply firms. For skilled labor, the systems being placed in offices and factories alike require only periodic maintenance and upgrades. The periodic nature of system maintenance, and the high cost of expertise related to it, provide strong incentive to fill the need with skilled contingent labor.

Dr. Vary Coates of the Office of Technology Assessment indicates that, historically, automation was assumed to reduce the demand for contingent labor. It was believed that the new technology would require an investment in training due to the increased specificity of the firm, the task, and the system. This increased investment in the worker would make prohibitive the cost of high staff turn-over, thereby stressing the importance of employee permanence. Instead, technology has encouraged the use of contingent labor in the following ways, as outlined by Dr. Coates:

- When back-office work (the routine processing of standardized data or text) is rationalized and deskilled, investment in training is minimal, and the value of experience and continuity is also minimal.
- Capitalization encourages the addition of nighttime or weekend shifts or longer hours, often filled by part-timers.
- Computer monitoring depersonalizes supervision and tends to make workers more interchangeable.
- The convergence of systems and the widespread use of some systems reduce the importance of knowing the idiosyncrasies of firms.

- When work is depersonalized and standardized, employers are more likely to accept job-sharing and part-time work, or work at unconventional times and locations.
- For high-level work such as specialized computer programming, software development, and systems analysis, employers often seek contract workers whose training is more recent or specialized than that of permanent employees. Contracting may be cheaper than investment in frequent skill upgrading or mid-career retraining for employees.
- Computers and telecommunications have made it feasible and attractive to both employers and employees to shift work to the worker's home. (Coates 1988, 31)

The growth in the use of paraprofessionals is also related to both increased competition and the new technologies in the workplace; companies have become more sensitive to the proper matching of skill levels to task requirements. This increased sensitivity has caused managers to ask whether they really need a professional with an MBA for entering numbers into a spreadsheet. The paraprofessionals that replace professionals are often students or individuals with associate degrees. With less experience and less personal investment in education, they are often more amenable or resigned to part-time or temporary work. (Belous 1989, 25)

A shortage of permanent labor in a particular occupation may force employers to use contingent labor. The contingent laborers in this instance may be unwilling or unable to take permanent positions. As an example, some nursing homes and hospitals hire nurses on a contingent basis because they are unable to pay prevailing permanent full-time wages for the industry. (Polivka and Nardone 1989, 13)

The temporary-help-supply industry itself may create some demand for contingent labor by providing it as a readily available option. This industry has become a significant clearing mechanism in the contingent labor market. It is likely that some of the contingent hiring currently done through the help-supply industry would not have occurred if the industry did not exist. "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." (Polivka and Nardone 1989, 12). This observation particularly applies to the current period of sluggish recovery.

The very legislation that is designed to protect workers by making it costly for employers to lay them off may contribute to an increase in contingent labor. Under the Equal Employment Opportunity Act, an employer's actions may be deemed discriminatory based on the composition of a group of laid-off workers. Any employer who lays off a large block of workers increases the risk of being sued. Contingent arrangements allow the employer to avoid this risk by changing employees to part-time status rather than laying them off. (Polivka and Nardone 1989, 13)

Hewitt Associates (1991), in a survey of 435 employers, found that 95% utilized part-time employees. About 65% of the firms represented non-manufacturing enterprises, and the remainder, manufacturing. The largest number of respondents were in the health care and medical services industry(14%), followed by banking and

finance(9%) and retailers(8%). The balance of respondents covered a broad range of economic activities. However, the main reasons given for use of part-timers by employers was not cost savings; rather, "The objectives most frequently stated by employers for using part-time employees include retaining valuable employees (65%) and adjusting the workforce to accommodate changing workloads (60%)" (Hewitt Associates 1991, 1). Reduction in labor costs ranked fourth in importance, after accommodation of employee work and family needs, as an objective in using part-time workers.

Factors Having a Negative Impact on Demand

In substituting contingent for full-time, permanent traditional labor, companies lose the potential benefits derived from a long-term employer-employee relationship. Most important among these lost benefits is the employee's strong personal identification with corporate goals and objectives. It is difficult to quantify the value of such an identification, but it should be evident that the benefits gained from a flexible contingent labor force are somewhat counteracted by the loss of employee identity with the company. Insofar as the company's goals can be standardized within operating procedures, the negative impacts of this loss of identity can be minimized. However, companies with numerous positions that require non-standardized behavior, such as creativity and problem solving, will possibly find the loss of employee identity with company objectives costly.

These same issues apply to the inherent loss of employee loyalty when one makes extensive use of contingent workers. Management on one hand is seeking to reduce costs by minimizing the attachment to the worker yet on the other hand control must still be maintained, in order to be efficient and effective.

Development of a two-tier employment system of permanent versus contingent workers can lead to heightened internal conflict among employees. This situation would present the traditional case of the haves versus the have-nots. Any conflict such as this among employees may lead to lowered productivity. (Belous 1989, 68)

Companies that rely on trade secrets to maintain a competitive advantage increase their exposure to information leakages by using contingent labor. These leakages may be intentional or unintentional. The intentional leakages may come as a result of the contingent employee's dissatisfaction with his place in the organization. The unintentional leakages may come as the result of a contingent employee's inadvertent use of a technical process or casual sharing of information learned at a previous job.

The firm that chooses to contract technical labor involved with product development runs the risk of facing questions of product ownership. In 1980 a programmer was hired as a freelancer to write an inventory and cash-flow-control program; later, the programmer and the company both claimed ownership of the program. A lower court ruled in favor of the company. However, the Second U.S. Circuit Court of Appeals recently overturned the decision; since the programmer hadn't received benefits and the company hadn't paid Social Security for him, his status as an independent programmer with rights to his own work was judged to be clear. (PC Magazine 1993)

The use of contracted labor to avoid employer obligations entails risks that stem from issues of control and legal definitions. To qualify under the tax code as contracted labor, the employer must not directly supervise activities of the employees. In other words, the only thing of interest to the employer must be that the job gets done, regardless of how it gets done. Problems arise as well with safety issues. Cases exist where formal policies have stated that company employees are not to intervene in the activities of on-site contractors under any circumstance. A major industrial accident at a chemical complex in Pasadena, Texas, was attributed to contracted labor. Research prompted by the accident revealed that contract workers in the petrochemical industry experience a higher rate of injuries than do direct-hire workers. Many plants have implemented comprehensive management safety systems, but corporate lawyers often advise managers not to supervise contract workers, in order to avoid being classified as coemployers. (Kochan, Wells, Smith 1992)

Richard Belous and others (BNA; Pulliam, 1992) caution that employers can run afoul of Title VII of the Civil Rights Act covering equal opportunity in employment, because courts have generally held that both the users of temporary employees and the temporary help agencies which employ them are considered employers, subject to the law's proscriptions against discrimination (Pulliam 1992). Temporary employees may also qualify for pension coverage under ERISA (the Employment and Retirement Income Security Act), if they work more than 1,000 hours in one year for a single employer. Finally, the recently enacted Americans with Disabilities Act (ADA) extends anti-discrimination protection to disabled workers, regardless of working hours, in all phases of the employment process, including reasonable worksite accommodations.

Finally, Dr. Coates, who outlined the effects of technology previously cited as increasing the demand for contingent labor, also provides reasons why technology may reduce the demand for contingent labor:

- A growing capability for direct communications of data from computer to computer, within and between organizations, requiring less re-keyboarding of data.
- Anticipated breakthroughs in the technology of optical scanning, so that computers can read data directly from paper.
- A strong trend toward capturing data at the source, for example, machine readable stubs, labels, tickets, and devices that allow customers to key in data to receiving computers such as automated teller machines and some point-of-sale terminals. (Coates 1988, 32)

Given the above, it seems that the role of technology in increasing the demand for unskilled contingent labor may be transitory. It could be that some forms of contingent labor are merely filling the interaction gaps of technologies not yet economically viable.

Summary

Despite the heightened interest in the growth in contingent labor and concerns related to managerial abuse of the contingent workforce, a contingent work relationship is in many cases advantageous to all parties involved. It is evident that the rise of contingent labor is a result of independent forces affecting both the supply of and demand for this form of labor. Today's workforce represents a more varied mix of interests and values than the workforce of twenty years ago. The industrial mix of our economy has shifted more toward service industries that are generally unable to inventory their product; irregular consumer demand and competition necessitates contingent work. Technology has increased the feasibility of the competitive use of contingent labor in industries that are not traditionally contingent. Systems, procedures, and institutions developing in the market facilitate more effective deployment of personnel. By improving flexibility, reducing idle time, and enabling access to expensive technical skills, the rise of contingent labor has increased general market efficiency, while the institutionalization of contingent labor has created a more efficient labor market. As contingent labor practices are further institutionalized, through temp agencies for example, the shift from traditional staffing arrangements will likely continue. However, there is surely a limit to the extent in which a company can detach itself from its workers and still maximize performance. This limit will likely place an upper bound on the prevalence of contingent labor, preventing what some fear is the coming elimination of traditional full-time work.

CHAPTER III

EMPLOYMENT TRENDS

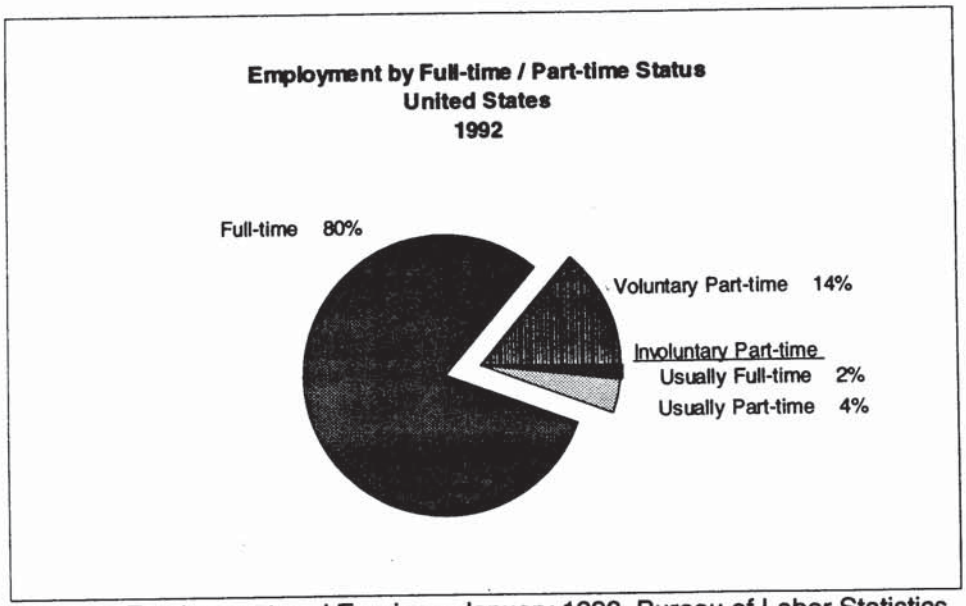
The discussion which follows will confine itself to trends in part-time employment and employment within what BLS terms the temporary help services industry. These firms specialize in the hiring and placement of temporary employees with other businesses and receive a fee for this service. The so-called "temps" are employees of the referring agency.

Part-time Workforce

National Data

In 1992, 22.6 million people in the United States, or 19.2 percent of those employed, were employed on a part-time basis. For purposes of this study, part-time employment includes individuals who normally work full-time schedules but were working part-time when surveyed due to economic reasons. The predominant economic reason for this group's situation is slack work; other reasons include materials shortages or plant maintenance, and gain of a new job or loss of a job during the week. Figure 1 provides the breakdown of those employed in 1992 by their work status The figure illustrates the relative sizes of the components of total employment.

Figure 1



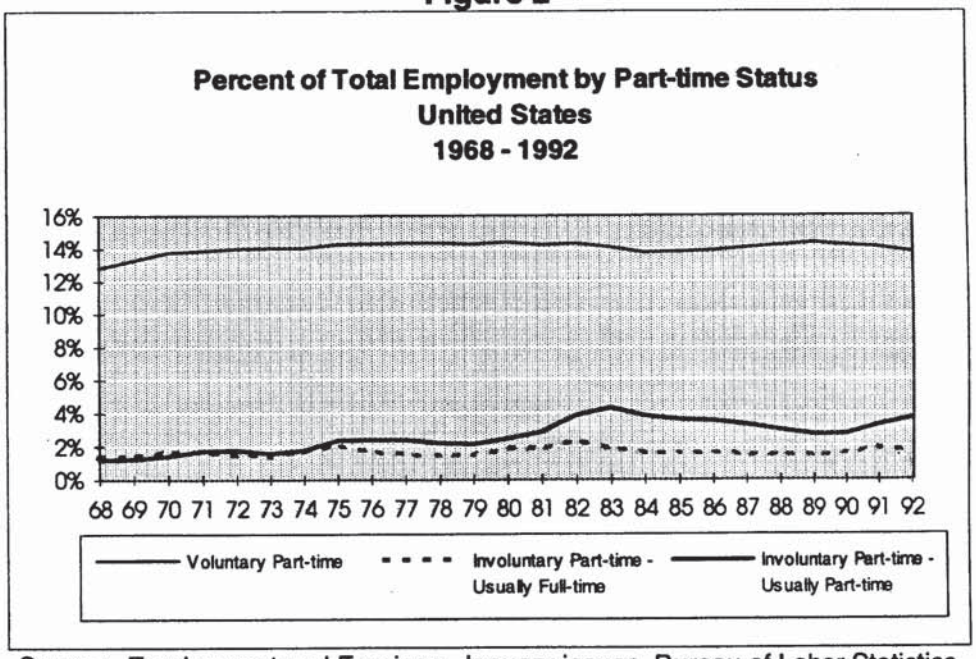
Source: Employment and Earnings, January 1993, Bureau of Labor Statistics.

As can be seen from Figure 1, the majority of part-timers work voluntarily; the remainder are divided between full-timers who are temporarily on a part-time schedule, or those who are working part-time because they can't find full-time jobs.

As has been covered in the overview, the percent growth of part-time, and especially temporary labor, was greater than the percent growth of the labor force between 1980 and 1988. However, comparing percent changes among labor force components of greatly differing magnitudes can be misleading. More understanding can be gained by examining the trends of the components of part-time labor as a percent of total employment.

Figure 2 illustrates the long-term trend, 1968 - 1992, of those employed part-time as a percent of total employment. Note that all types of part-time labor have increased in share of total employment and that most of that increase occurred prior to 1983. The growth of voluntary part-time employment coincides with the massive entry of women into the workforce (a later figure will verify this relationship); part-time labor was the only viable option for many women desiring work. The steady growth of involuntary part-time labor as a percent of employment during the 1970's is related to a shift in the industrial mix toward industries that traditionally have more part-time labor; this will also be shown in a later figure. Also note that during the sustained growth period of 1984 - 1989, involuntary part-time did not decline to previous levels in percent of total employment. This indicates that the growth of involuntary part-time as a percent of total employment has had both a recessionary component and a long-term structural increase.

Figure 2

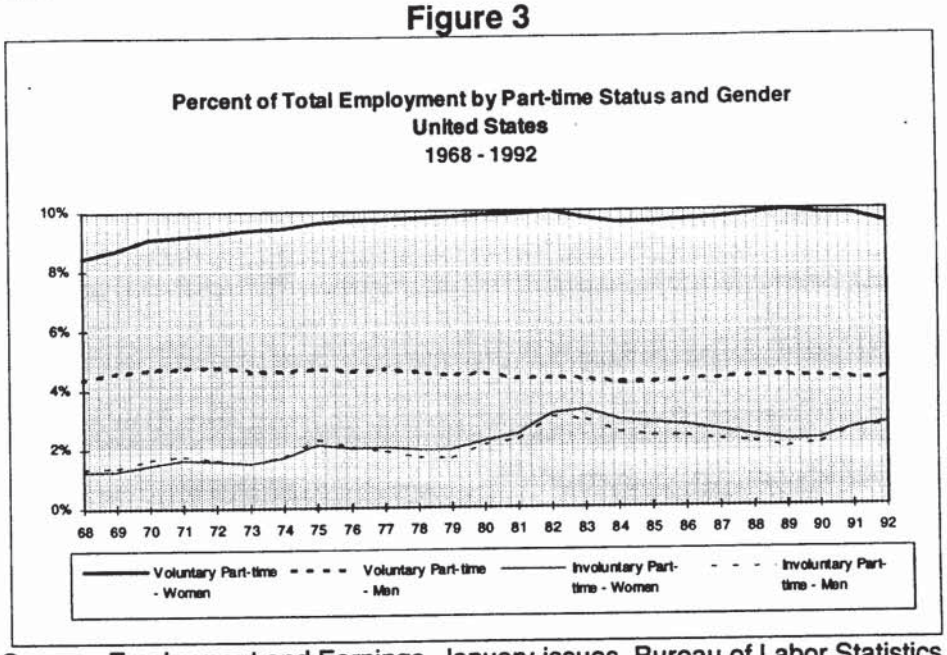


Source: Employment and Earnings, January issues, Bureau of Labor Statistics.

Figure 3 illustrates voluntary and involuntary part-time as a percent of total employment by gender. For the sake of clarity, the two forms of involuntary part-time employment that were plotted in the previous figure have been combined. This figure confirms the effect of women entering the workforce throughout the 1970's in terms of the increasing share of women employed on a voluntary part-time basis, as opposed to the fairly constant share of men voluntarily working part-time. The figure also shows

that involuntary part-time employment as a percent of total employment is roughly the same for men and women; however, since women are a smaller portion of those employed, they have a disproportionate share of involuntary part-time work, and an even more disproportionate share of voluntary part-time work. This will be seen in Tables 2 and 3.

Figure 3



Source: Employment and Earnings, January issues, Bureau of Labor Statistics.

Table 2 provides a demographic breakdown of part-time employment by age and gender for 1992. The columns on the left side of the table represent each group's share of all part-time employment. Note that women represent 63.8% of part-time employment and that, as Nardone has pointed out, young people between the ages of 16 and 24 (16.6% + 15.6%) and women between the ages of 25 and 54 (36.5) represent 68.7% of part-time workers. So, part-time employment is heavily composed of the young and women.

The right side of Table 2 displays the share of each group that is part-time. Note that the groups with the two highest rates are men and women between the ages of 16 and 19. The groups with the two lowest rates are men aged 25 to 54 and men 55 or older. This demographic information shows that it is the youth and women that are disproportionately part-time. Part-time work is the only viable option for school students who wish to work. Likewise, the woman with family obligations can often work only part-time.

Table 2

Part-time Employment by Age and Sex
Group's Share of Total Part-time, and Share of the Group that is Part-time
1992

	Group's Share of Total Part-time			Share of Group that is Part-time		
Age	Total	Men	Women	Total	Men	Women
16-19	16.6%	8.0%	8.5%	69.5%	65.3%	73.9%
20-24	15.6	7.0	8.5	28.9	24.9	33.3
25-54	50.1	13.6	36.5	13.3	6.7	21.1
55 plus	17.7	7.5	10.3	27.3	20.3	36.4
Total	100.0	36.2	63.8	19.2	12.8	26.8

Source: Employment and Earnings, January 1993, Bureau of Labor Statistics.

A similar demographic breakdown for involuntary part-time employment is presented in Table 3. Note that on the left side, the share of total involuntary part-time is much more evenly split between the genders than it is for total part-time. The right side of the table shows that youth experience higher rates of involuntary part-time. Also, the largest gender difference in the rates occurs in the 55 or older category. It could be that women in this age group have fewer least workplace skills, and are therefore more likely to have difficulty getting full-time work.

Table 3

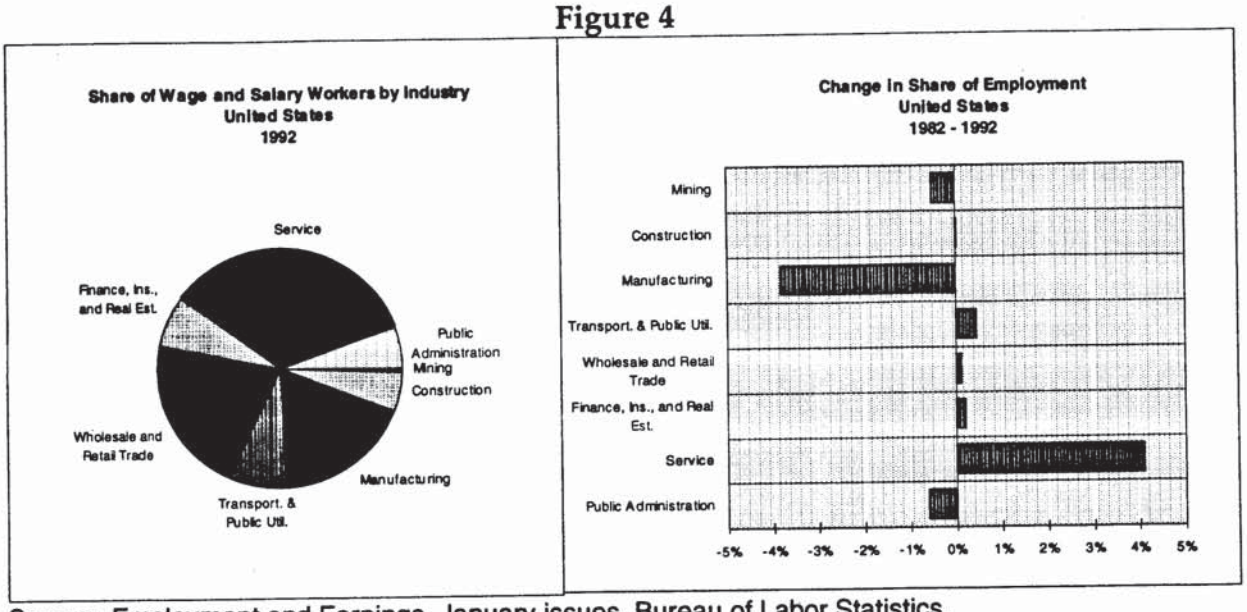
Involuntary Part-time Employment by Age and Sex
Group's Share of Total Involuntary Part-time, and Share of the Group that is Involuntary Part-time
1992

	Group's Share of Total Invol. Part-time			Share of Group that is Invol. Part-time		
	Total	Men	Women	Total	Men	Women
16-19	9.5%	5.0%	4.5%	11.2%	11.4%	11.0%
20-24	17.0	8.8	8.2	8.9	8.9	9.0
25-54	62.9	30.4	32.5	4.7	4.2	5.3
55 plus	10.6	5.0	5.7	4.6	3.8	5.7
Total	100.0	49.2	50.8	5.4	4.9	6.0

Source: Employment and Earnings, January 1993, Bureau of Labor Statistics.

The industrial mix of the economy has changed significantly. Figure 4 shows the distribution of salary workers at work by industry. The pie chart on the left indicates the industry mix of the U.S. economy in 1992 according to number of wage and salary workers by industry. Note that Services, Manufacturing, and Wholesale and Retail Trade are the largest components of the industrial mix. The chart on the right shows the percentage point change in each industry's share of people at work between 1982 and 1992. Note that Manufacturing's share has declined significantly, and Service's share has increased.

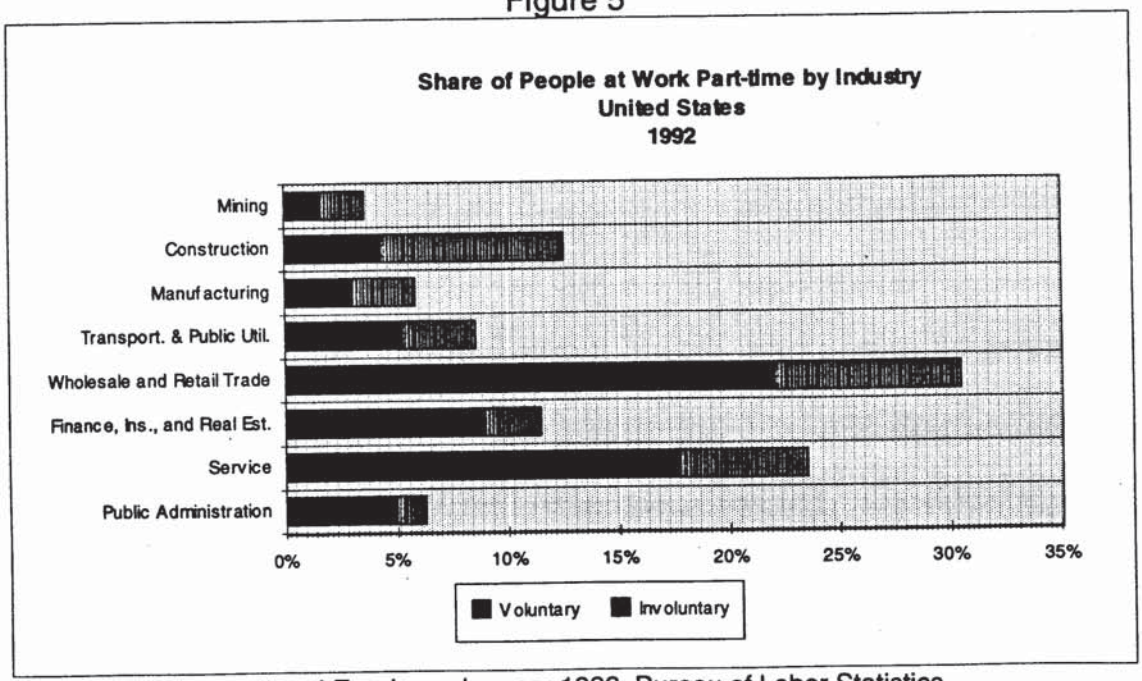
Figure 4



Source: Employment and Earnings, January issues, Bureau of Labor Statistics.

The importance of the above to a discussion of part-time employment is illustrated in Figure 5. This figure shows each industry's share of voluntary and involuntary employment relative to the industry's total employment. Note that wholesale and retail trade has the highest part-time rate; this sector also has the highest involuntary part-time rate. The service sector has the second highest part-time rate and the manufacturing sector has the second lowest rate. This information, paired with that in Figure 4, provides evidence as to the reasons for the increase in part-time labor; namely, that lost jobs in manufacturing are being replaced by service sector jobs that have a higher demand for part-time labor.

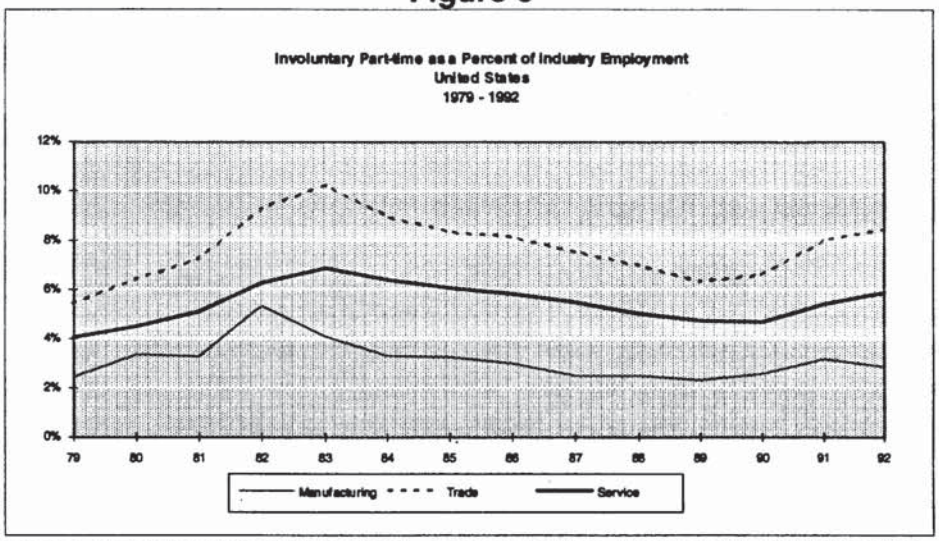
Figure 5



Source: Employment and Earnings, January 1993, Bureau of Labor Statistics.

In Figure 2, it was shown that involuntary part-time did not drop as much as one would expect during the extended growth of the 1980's; the reason for this can be seen in Figure 6. This figure shows involuntary part-time rates for the three major industries for the period 1979 through 1992. Note that manufacturing has the lower involuntary part-time rate and the rate seems to have been more responsive to the 1982-83 recession. Note also that the involuntary part-time rate of the service sector is significantly higher than that for manufacturing over the entire period. Since Figure 4 indicated a shift from manufacturing to services, this is a likely cause for the increase in the base level of involuntary part-time rates.

Figure 6



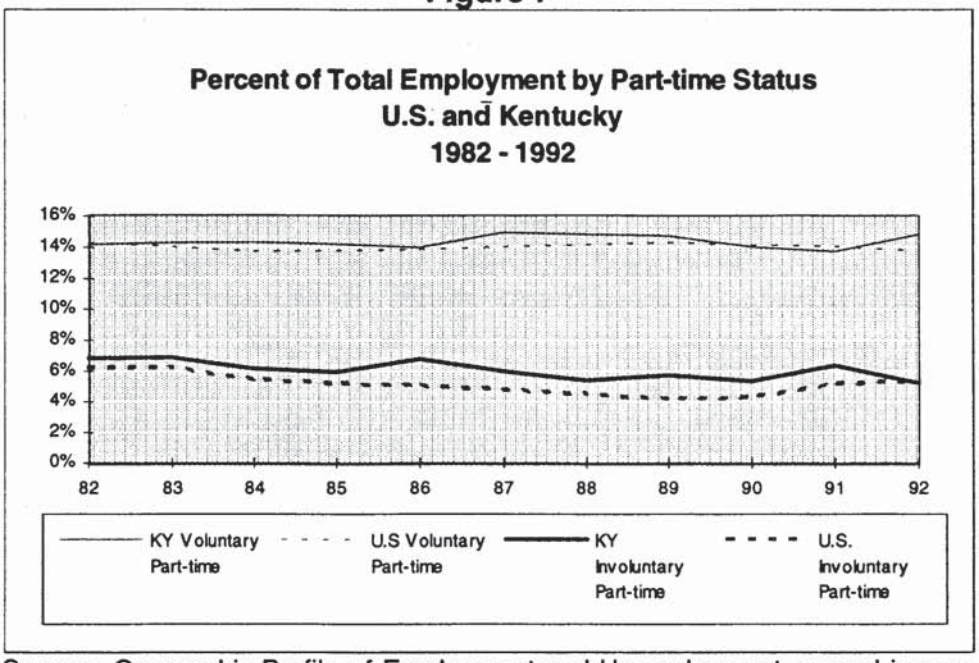
Source: Employment and Earnings, January issues, Bureau of Labor Statistics.

Kentucky Data

Information concerning state-level part-time employment is not as comprehensive as that available for the nation. While reasons for working part-time and hours worked are available, the industry breakout of part-time employment is not available at the state-level.

Figure 7 provides a comparison of Kentucky and the U.S. for the trend of voluntary and involuntary part-time as a percent of total employment. As can be seen, the rate of voluntary part-time is roughly the same for Kentucky as it is for the nation. Generally, Kentucky has been slightly higher than the nation, with that relationship reversing in 1991. However, it is common for smaller geographic areas to show more variations in data such as this; therefore, the difference is not judged significant. For involuntary part-time, Kentucky has shown the same trend, but it is consistently about one percentage point higher. Figures 8 and 9 attempt to explain the difference.

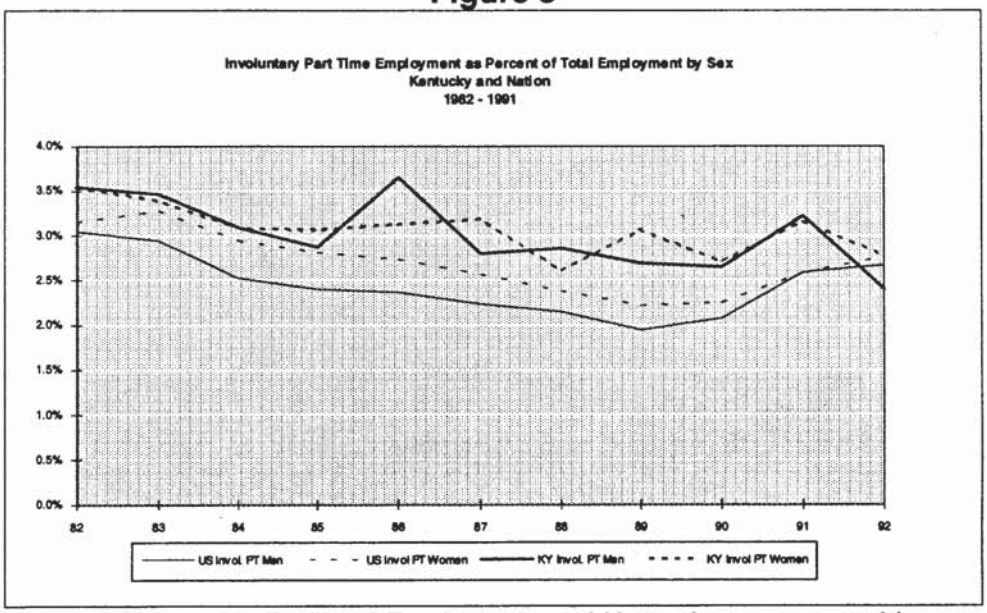
Figure 7



Source: Geographic Profile of Employment and Unemployment, annual issues, Bureau of Labor Statistics.

Figure 8 displays involuntary part-time rates by gender for Kentucky and the nation. This increased detail by gender does not explain any difference in involuntary part-time rates. As at the national-level, involuntary part-time as a percent of total employment in Kentucky is generally the same for men as it is for women.

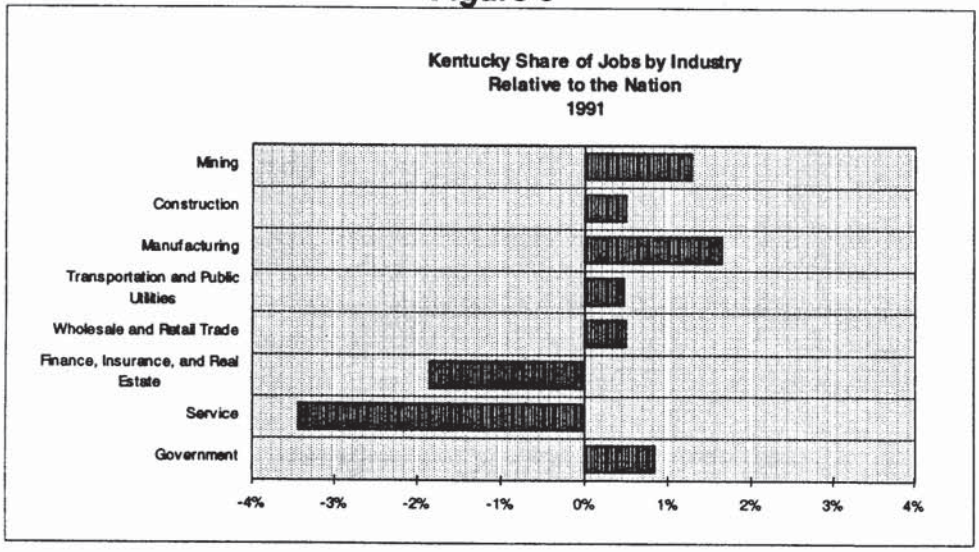
Figure 8



Source: Geographic Profile of Employment and Unemployment, annual issues, Bureau of Labor Statistics.

Although industry detail of part-time employment is not available at the state level, we can examine the share of jobs by industry for Kentucky compared to the nation to see if a relative under- or over-represented industry accounts for the difference. Figure 9 shows that, in Kentucky, services are under-represented relative to the nation and manufacturing is over-represented. At the national-level, the service industry has relatively high involuntary part-time rates and manufacturing has relatively low involuntary part-time rates; given this, one would expect a lower involuntary part-time rate for Kentucky. Apparently Kentucky's industries do not have involuntary part-time rates similar to the nation's; the reasons for this are not known. These reasons could relate to the higher rate of unskilled manufacturing and unskilled labor in the state, as well as the concentration of economically depressed areas in eastern Kentucky. The absence of data only allows conjecture on this point. In any event, the overall trends and volume of part-time labor in Kentucky appear generally to mirror those of the nation.

Figure 9



Note: A negative value indicates Kentucky has a smaller share of jobs for the particular industry.

Source: Bureau of Economic Analysis.

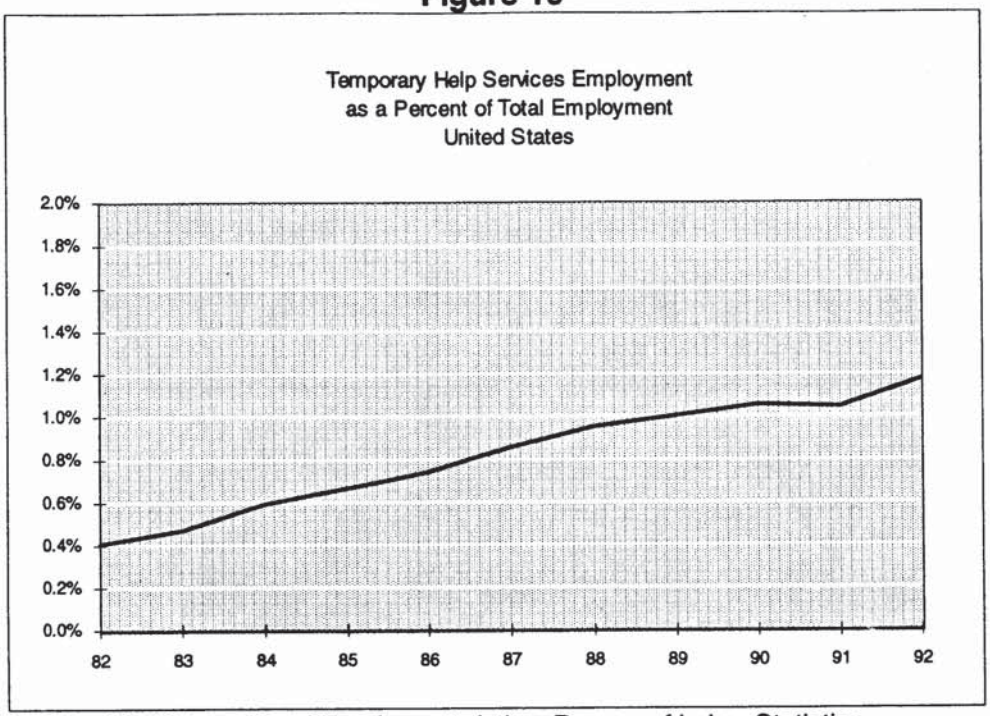
Temporary Help Services Employment

National Data

In a recent study of contingent workers, the General Accounting Office (GAO, 1991), found that growth in the temporary help component more than doubled during the 1980's, from approximately 400,000 "temps" in 1980 to over one million by 1989. This was a 158% increase in ten years, although it still represents only one percent of the total workforce. These statistics, however, only reflect reported employment by the Temporary Help Services (THS) industry; some labor experts believe the number of

"temps" hired directly by businesses could easily double the total number (Nardone, Belous, BNA).

Figure 10

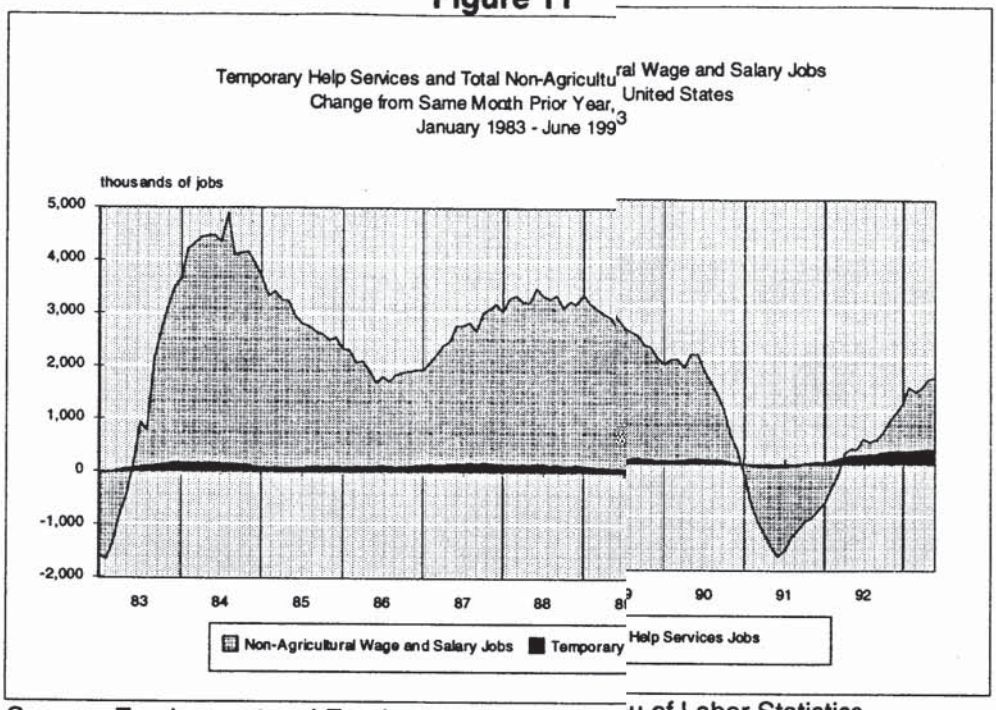


Source: Employment and Earnings statistics, Bureau of Labor Statistics

Figure 10 shows that between 1982 and 1992 the THS industry (SIC 7363) has tripled in size relative to total employment (from .4% to 1.2%). In the overall scale of total employment it is quite small, but it has increased substantially.

The growth of the temporary help services industry has come under recent scrutiny. In September 1993, The Economic Policy Institute released a report highlighting the contingent portion of job growth in the sluggish recovery between March 1991 and July 1993. "The temporary-help industry, which comprises less than 2% of total employment, accounted for 27.7% of the new jobs." (Mishel and Bernstein 1993, 2). This striking figure appears to be the result of sluggish overall growth in which there hasn't been much job creation, and a reluctance to take on permanent staff due to skepticism regarding growth in the future. The temporary help service industry has presented an attractive option to the skeptical employer. Figure 11 presents monthly data on year-to-year job growth for both total non-agricultural jobs and temporary help jobs. A comparison of the recovery of late 1983 and 1984 with the recovery of 1992 and 1993 reveals a significant difference in the number of jobs created. The current recovery has created jobs at less than half the rate of the prior recovery, while temporary help industry jobs are being created at around 1.5 times the rate of the prior recovery.

Figure 11

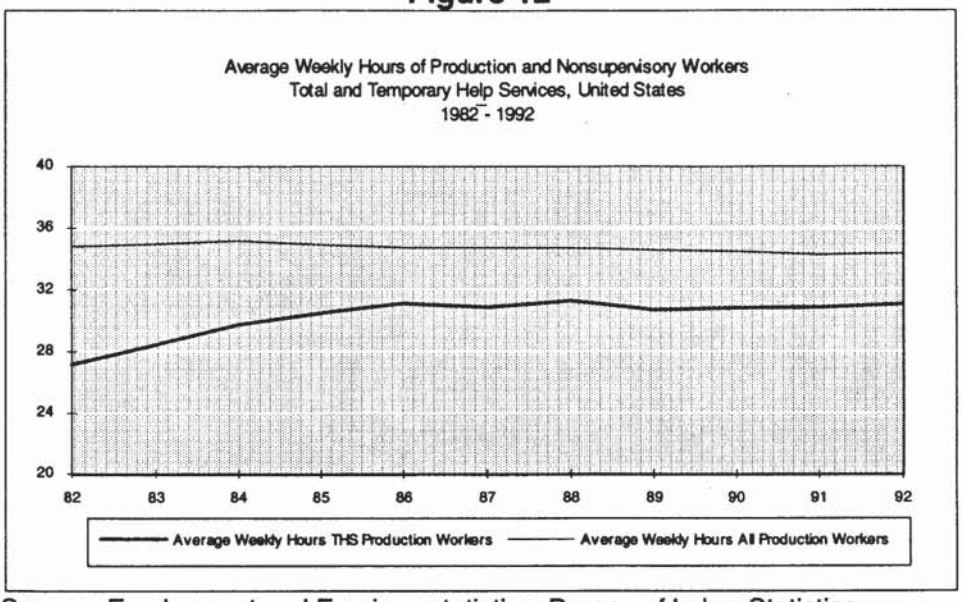


Source: Employment and Earnings statistics, Bureau of Labor Statistics

The use of temporaries has traditionally been reserved for clerical, low-skill work. However, the demand factors noted in Chapter 2, related to an increased need for a flexible workforce, have led to an increased use of temporaries in manufacturing and technical fields. Temporary labor is becoming institutionalized as the workplace is being automated and organized in a manner that facilitates flexible staffing and necessitates the use of temporary or contractual technical support. Possible effects of this institutionalization and broadening in the base of temporary help is shown in Figures 12 through 14.

Figure 12 demonstrates the increase in the average weekly hours of nonsupervisory workers in the Temporary Help Industry. The strengthening of the industry itself, and the institutionalization of temporary help have led to more hours for the average temporary worker. Note, however, that these numbers do not include those temporaries not working through an agency. Those that are working through an in-house (personnel office) arrangement may not average as many hours; the temp agencies have financial incentive to have their people work more hours, since agency income is based on a percent of employees' pay.

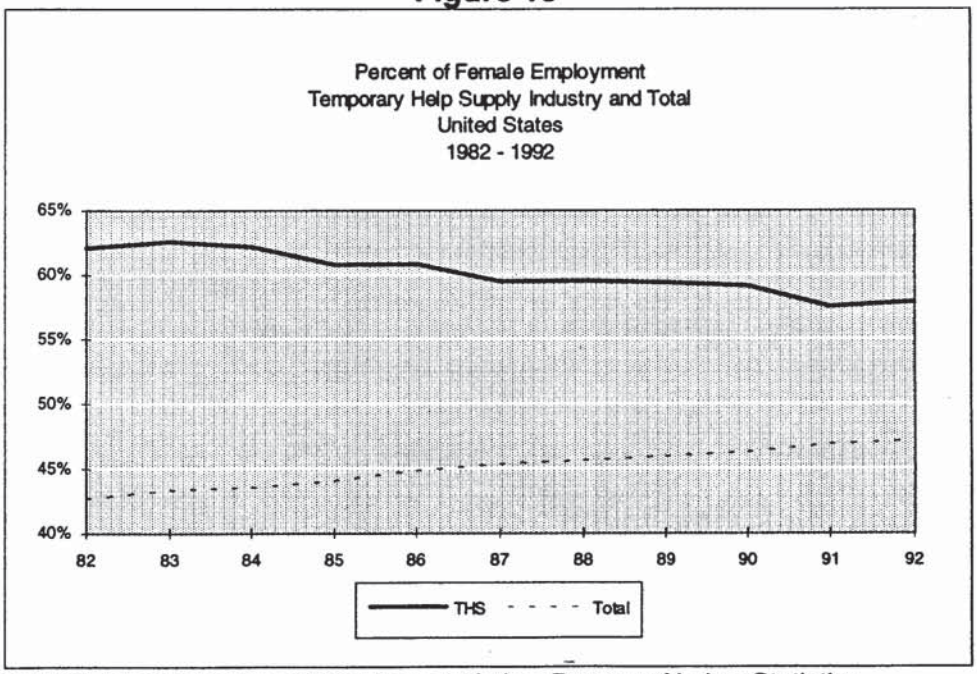
Figure 12



Source: Employment and Earnings statistics, Bureau of Labor Statistics

Figure 13 indicates that women are declining as a percent of THS industry employment, while increasing as a percent of total employment. This change is likely the effect of THS broadening its base from the traditional female-dominated clerical occupations to the professional occupations, such as programming, accounting, and law..

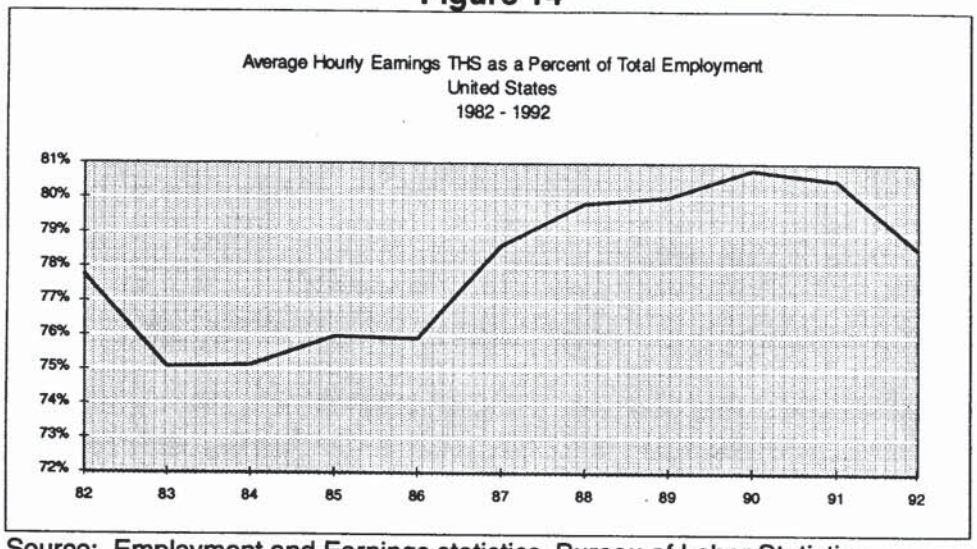
Figure 13



Source: Employment and Earnings statistics, Bureau of Labor Statistics

Figure 14 represents average hourly earnings of THS employees as a percent of average hourly earnings of all workers. The values only vary in the range between 75 and 81 percent, but small movements of this indicator can be significant, and there appears to be a pattern. The growth of this indicator from 1984 through 1990 likely represents the effect, again, of more widespread use of temporaries across more varied industries and in higher skilled positions. Likewise, the declines in 1983 and 1992 illustrate the sensitivity of this industry to recessions.

Figure 14



Source: Employment and Earnings statistics, Bureau of Labor Statistics

Table 4 is based on the May 1985 Current Population Survey and is combined from two sources: Nardone (1992) and Callaghan and Hartmann (1991). This is the only demographic information available for temporary workers (Nardone 1992). Women comprise nearly two-thirds of the THS workforce; and young workers hold nearly one-third (32.7%) of these jobs. For many, temporary employment meets a need for some income while permitting time for education, child care, or leisure activities. Even though there has been expansion to more skilled occupations, the information from 1985 presented here indicates that the administrative support occupation represents a very large share of temporary employment compared to other industries, and a smaller share of managers and professionals. Nardone(1992) reports that about 40% of "temps" worked a part-time schedule in 1985, while the remainder were generally in full-time assignments of limited duration.

Table 4

Demographic Characteristics of Temporary Help Supply Workers
Comparison With all Workers
1985

	All Industries	THS	Share for THS less Share for All Industries	
Age				
16-24	20.1	32.7	12.6	
25-54	67.4	57.6	-9.8	
55 and over	12.5	9.7	-2.8	
	100.0	100.0	0.0	
Sex				
Men	55.0	35.8	-19.2	
Women	45.0	64.2	19.2	
	100.0	100.0	0.0	
Occupation				Average. Wage
Managers and professionals	24.0	11.0	-13.0	$9.56
Technicians & sales	14.3	8.8	-5.5	
				6.45 *
Administrative support	17.3	43.3	26.0	
Service workers	13.7	10.8	-2.9	4.82
Precision Production	12.1	4.6	-7.5	9.57
Operators and Laborers	16.6	16.9	0.3	7.28
Farming and related	2.1	4.4	2.3	4.94
	100.0	100.0	0.0	

* -- Average wage for combination of Technicians, sales, and admin. support

Source: Combined information from tables by Nardone, and by Callaghan and Hartmann.

Kentucky Data

State-level Bureau of Labor Statistics data for THS employment is sparse. For Kentucky, the Employment and Earnings series released by the BLS only reflects employment to the detail of Business Services (SIC 73), of which THS (SIC 7363) is a part. BLS does, however, provide information for Kentucky THS employment in its Employment and Wages series, which provides aggregate information on individuals covered by unemployment insurance. Changes in the classification of industries only allows a time series back to 1988. National information from this series was also obtained to allow for appropriate comparison.

The information presented in Table 5 indicates that Kentucky has a slightly lower relative employment in the THS industry, although it is increasing, as it is in the nation. Also, Kentucky had a significant increase in THS employment in 1992, similar to that of the nation.

Table 5

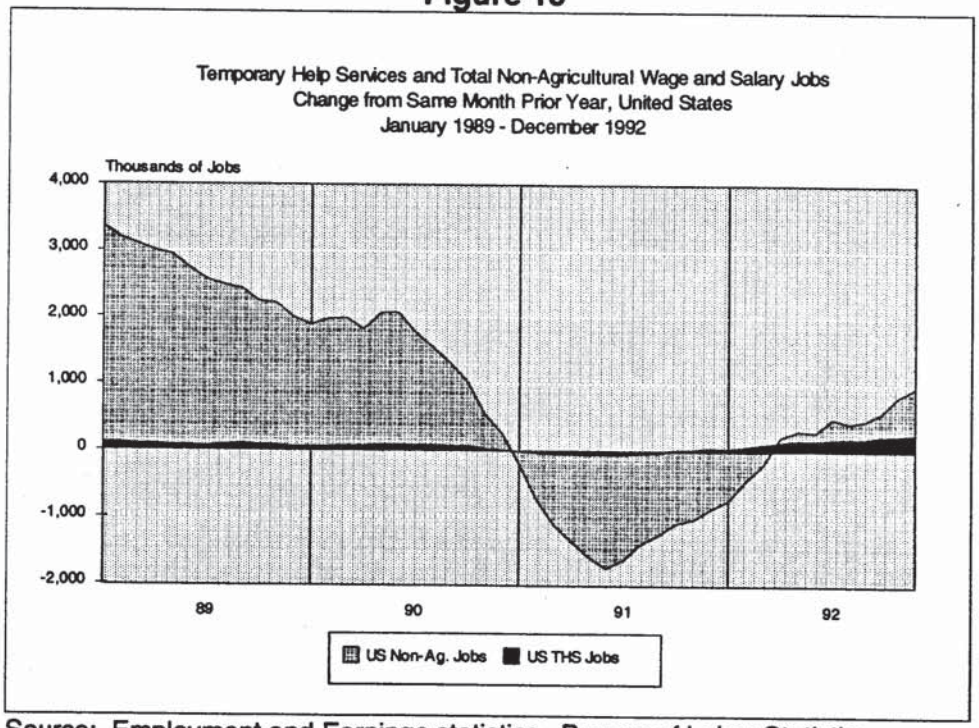
Temporary Help Service Covered Employment
United States and Kentucky
1988 - 1992

Year	THS Employment		Percent of Region's Total Employment	
	US	KY	US	KY
88	1,136,022	12,160	1.09%	0.92%
89	1,227,214	13,639	1.15	0.99
90	1,299,550	14,032	1.20	0.99
91	1,272,338	14,177	1.19	1.00
92	1,424,675	17,756	1.33	1.23

Source: Employment and Wages statistics, Bureau of Labor Statistics.

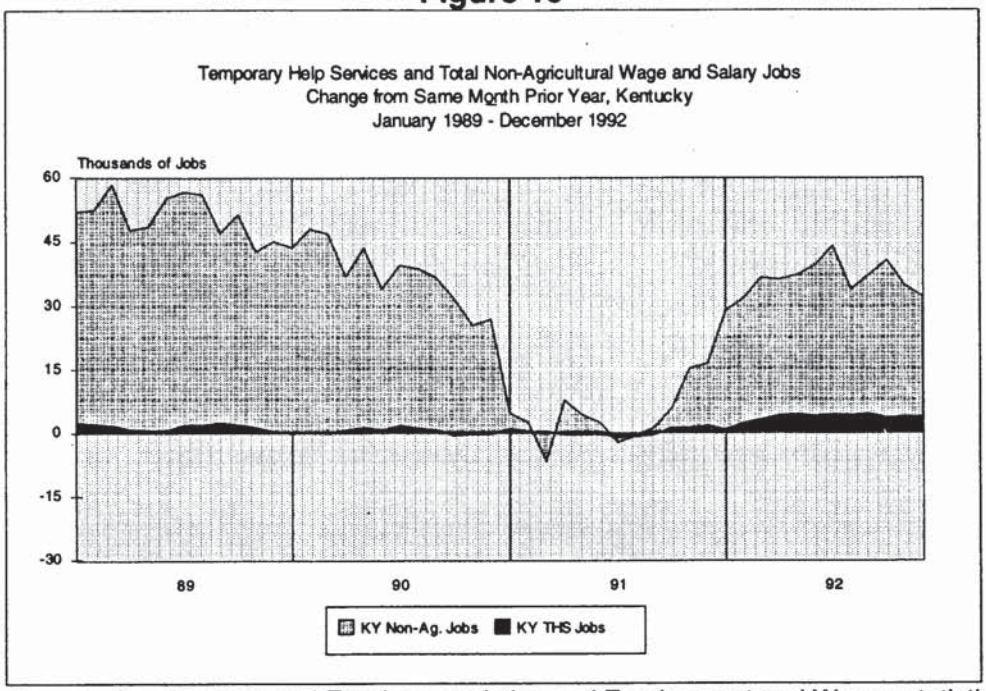
Monthly data allows an examination of relative job growth for the period 1989 through 1992. Figure 15 provides national data for comparison purposes; it is a subset of Figure 11. Figure 16 illustrates that Kentucky job growth during the recovery has been relatively stronger than that of the nation, and the state did not experience much job loss during the recession. Like the nation's, Kentucky's temporary help service industry has experienced strong growth in 1992 relative to prior periods.

Figure 15



Source: Employment and Earnings statistics , Bureau of Labor Statistics.

Figure 16



Source: Employment and Earnings statistics and Employment and Wages statistics, Bureau of Labor Statistics.

Table 6 provides the average weekly wage, which is composed of hours worked and wage rate. Note that the average weekly wage of Kentucky THS workers as a percent of the wage for all workers is lower than that for the nation. This implies that Kentucky's THS workers compared to the nation's are either not being used in higher paying occupations, they are not working as many hours, or they are receiving lower wages for the same occupation.

Table 6

Temporary Help Service Average Weekly Wage of Covered Employment
United States and Kentucky
1988 - 1992

	THS Average Weekly Wage		Percent of Region's Average Weekly Wage	
Year	US	KY	US	KY
88	$218	$137	51.8%	38.4%
89	228	152	52.5	41.6
90	238	161	52.4	41.9
91	251	171	53.1	42.9
92	256	179	51.4	42.6

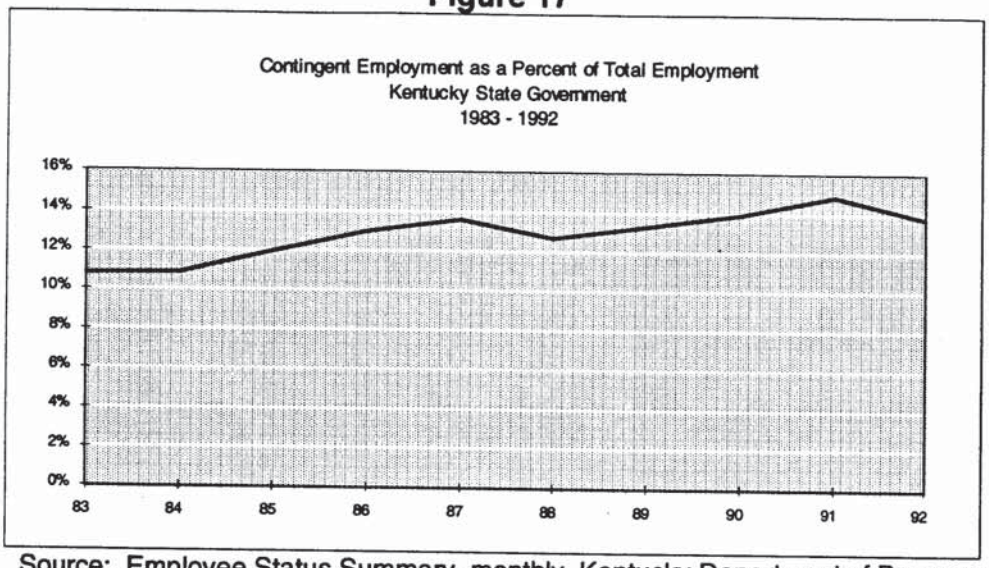
Source: Employment and Wages statistics, Bureau of Labor Statistics.

Additional information on the Kentucky Temporary Help Services Industry was obtained through a survey conducted as part of this study; results are presented in Chapter 4.

Kentucky State Government

Employment in state government has risen gradually over the last eight years. The increases have occurred in both the full-time and contingent components of the workforce, although contingent employment has grown at a faster rate. Figure 17 indicates that contingent employment as a percent of total Kentucky State Government employment has increased from around 11% in 1983 to around 14% in 1992.

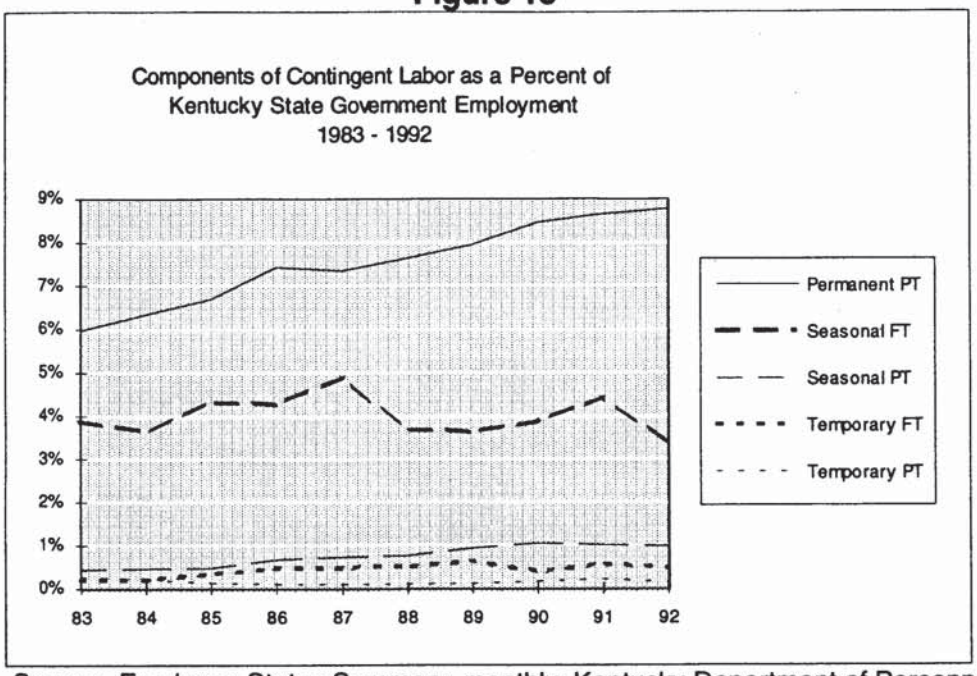
Figure 17



Source: Employee Status Summary, monthly, Kentucky Department of Personnel

Included in the "contingent" classification are the following subgroups: permanent part-time, temporary full-time, temporary part-time, seasonal full-time, and seasonal part-time. Emergency and federally-funded, time-limited personnel were excluded from this examination. Figure 18 illustrates the trend of these components as a percent of Kentucky State Government employment. Permanent part-time represents the largest portion of contingent employment and has increased the most in share of total employment. The seasonal full-time workers are also a sizable share of state employment. They also appear to have a pattern of decline relative to total employment every four years , followed by three years of increases (in apparent relation to changes in gubernatorial administrations); the net effect has resulted in no long-term increase in the share of employment that is seasonal full-time. Temporary full-time and seasonal part-time have had significant growth, with both at least doubling in size relative to total state employment, although they still represent a small share of that employment. There is very low utilization and no significant growth in temporary part-time employment.

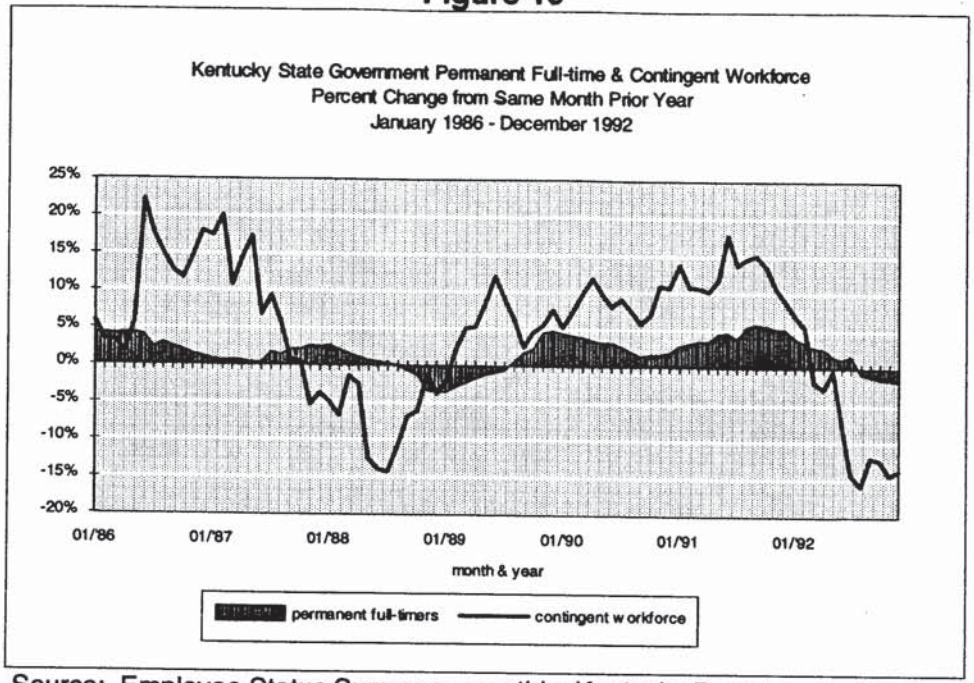
Figure 18



Source: Employee Status Summary, monthly, Kentucky Department of Personnel

Figure 19 presents monthly data for permanent full-time and contingent employment. To reduce the extent to which seasonality affects the extremes of these trends, the employment data were adjusted so that percentage differences in the number of employees were calculated comparing the same months year to year. As can be readily observed, annual changes in the number of permanent full-time workers have stayed within a band of plus or minus 5% in recent years, while change in the number of contingent workers has fluctuated in a wider range - from a gain of nearly 25% to reductions approaching 15%. Note as well that while the percentage increase in permanent full-timers stayed relatively stable, then declined during 1986, the percentage change in contingent workers surged upward. The opposite occurred toward the end of 1987 and the first half of 1988. The previous pattern reappeared from mid-1988 through most of 1989. Since late 1989, the trends have been complementary, tracking up and down in the same direction.

Figure 19



Source: Employee Status Summary, monthly, Kentucky Department of Personnel

Summary

At the national level, the following major patterns in contingent labor arrangements were observed. Roughly 80 percent of part-time workers voluntarily choose that working arrangement. Women, youth and older workers comprise about 80 percent of those working part-time. Involuntary part-time employment exhibits a strong cyclical pattern relating to recessions; additionally, an examination of longer term trends of the 1970s and 1980s indicated a structural increase, most notably during the 1970s. However, it is interesting to note that the percent of total employment comprised by those working part-time involuntarily was virtually the same in the pre-recessionary troughs of 1980 and 1990. This means that during this period, the total growth trend was relatively flat.

The temporary help services industry (THS) accounts for a very small percentage of total employment. Although the percentage increases in the size of the sector are quite large, this is normal for any new industry. The large percentages may be as much a function of the small initial size of the sector as they are a function of its rapid growth. The "recovery" years of 1992 and 1993 have seen particularly strong growth in the THS industry relative to overall employment. The overall employment gains of this "recovery" fall far short of any other post-recession period; it is likely that many employers are reluctant to commit to new full-time employees at a time when future growth is uncertain. Only future experience will tell us to what extent the latest years represent the employers' response to a sluggish economy, as opposed to a significant structural change in the way people are employed.

Some have projected dire consequences for the U.S. labor force on the basis of assumptions that the large percentage increases in THS will continue long-term. The supply component of this form of labor cannot be ignored; in the absence of further significant demographic or preference changes among those individuals who supply temporary labor, the growth of THS is likely to be somewhat bounded. Therefore, while this new labor market arrangement is definitely becoming more commonplace, those who warn that it will replace the major share of permanent labor arrangements are likely overstating its growth potential.

As with part-time labor, women and the young make up a majority of those employed through THS agencies. It is not known what percentage of THS workers are in the arrangement voluntarily. Administrative support, laborer and administrative and professional occupations account for the majority of THS placements. Production or manufacturing occupations are those most under-represented in THS placements. Therefore, it is believed that the growth in this industry comes largely from sector shifts to a more service-oriented economy and from the changes in office technology. This data does not show that typical skilled manufacturing occupations are included in the growth of the contingent labor sector. Two major occupational types appear to account for most of the growth. First are those which are low-skill. The contingent market for laborers is long-standing. However, advances in office technology have largely de-skilled and standardized clerical tasks. This has allowed these jobs to be filled on a temporary basis as well. Second are those which are high-skill and therefore high-cost, but which are needed only intermittently by an organization. Positions such as computer specialists, accountants and personnel managers are increasingly being filled on only an as-needed basis.

From these data it appears that, in general, the size and growth of Kentucky's private contingent labor force is similar to that of the U.S. as a whole. Historically, Kentucky has had a slightly larger share of those who are working part-time involuntarily, which may be attributed to the concentration of structurally weak economies in the eastern part of the state. Kentucky also has slightly fewer workers in the temporary help services industry (THS) and those workers have a lower average salary than THS workers across the U.S. It is believed that the major reason for the lower average salary is that this particular labor market is likely more developed in large urban economies, which are more concentrated in the service sectors than is the Kentucky economy. This means that there are likely to be more technical and professional occupations included in the U.S. data than in the Kentucky data. This could also reflect that the skill-level of Kentucky THS workers is below the average for the U.S. Note that data on temporary work arrangements outside of THS agencies was not available for either the national or state level.

Although it follows a cyclical pattern apparently related to changes in gubernatorial administrations, the general trend of the use of various categories of contingent labor in Kentucky state government has been increasing during the period covered by the data. Increases in the number of-permanent part-time state employees accounted for most of the overall increase in state contingent workers. Seasonal full-time workers also account for a significant share of the state government contingent work force. While their four-year cyclical pattern is quite pronounced, the overall

growth trend is relatively flat. Temporary full-time and seasonal part-time labor arrangements have increased in number, but still make up a very small share of the total contingent segment of state employees. Before 1989 the pattern was that state government contingent labor tended to increase when permanent full-time employment decreased. However, since that time, the two types of state government employment have tended to increase and decrease together.

CHAPTER IV

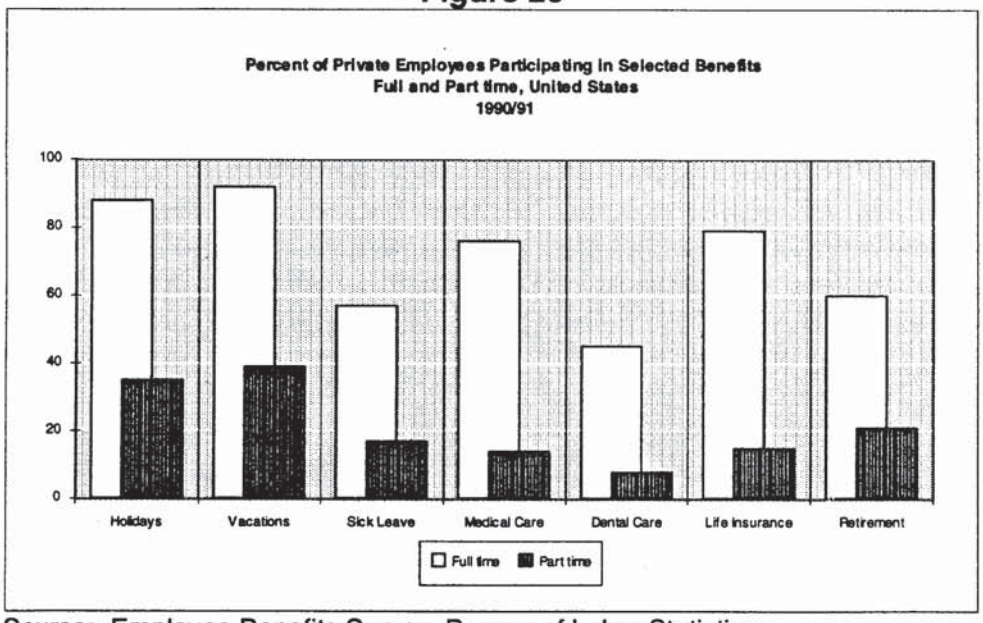
BENEFITS

Part-time Workforce

Private Sector

Beginning in 1990, BLS broadened its sampling of employee benefits to include not only full-time employees, but also part-timers. Two surveys, one of private firms with fewer than 100 workers, and the other of private firms with more than 100 employees, were conducted during 1990 and 1991, respectively. The information from these two surveys was combined and released in June 1993. Major fringe benefits were reported as illustrated in Figure 20.

Figure 20



Source: Employee Benefits Survey, Bureau of Labor Statistics.

It should be noted that this information relates to percent of employees participating in benefit plans. To the extent that some part-time employees do not have the primary household job, they will be less likely to participate in benefits that involve some form of cost sharing, such as various forms of insurance.

Vacations, closely followed by holidays, are the most commonly provided major fringe benefits for both full-time and part-time employees in the private sector. For full-time employees, sick leave, dental care, and retirement plans are least often offered. Perhaps not surprisingly, medical and dental insurance are the major benefits least offered to part-time employees. It is clear from the figure that part-timers do not participate in employer benefits nearly to the extent that full-timers do.

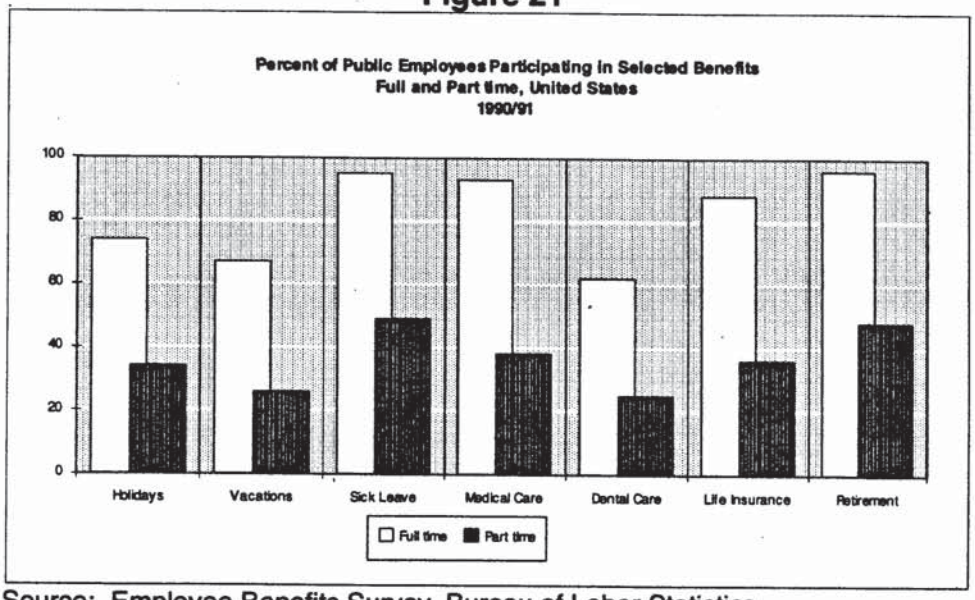
The U.S. Chamber of Commerce, in a 1991 survey of employee benefits, found that the percentage of firms giving all benefits to part-timers (generally on a pro-rated basis dependent on the hours worked) had increased to 30% from 17% the previous

year. As in the BLS findings, vacation time was the most prevalent benefit (72%), followed closely by retirement plans (71%). Health care was offered by approximately 54% of the firms, a considerably higher percentage than found by BLS. The Chamber reports that more than 1000 firms participated in its survey, with 249 of those employing fewer than 100, and 112 having more than 5000 employees. Altogether, the participating businesses employed more than 3.2 million persons (U.S. Chamber, 1992). The BLS data represent responses from 2017 small businesses and 2144 medium to large firms.

Public Sector

BLS (1992) conducted a survey of state and local governments during 1990 to gather employee benefit information similar to that obtained for the private business community. The extent to which full and part-time employees participate in given benefits is illustrated in Figure 21. Again, the difference between the full and part-time classes can clearly be seen. Comparing Figures 20 and 21 shows that generally, public sector part-timers participate more than their private sector counterparts in all of the benefits except holidays and vacations, as do the public sector full-timers.

Figure 21



Source: Employee Benefits Survey, Bureau of Labor Statistics.

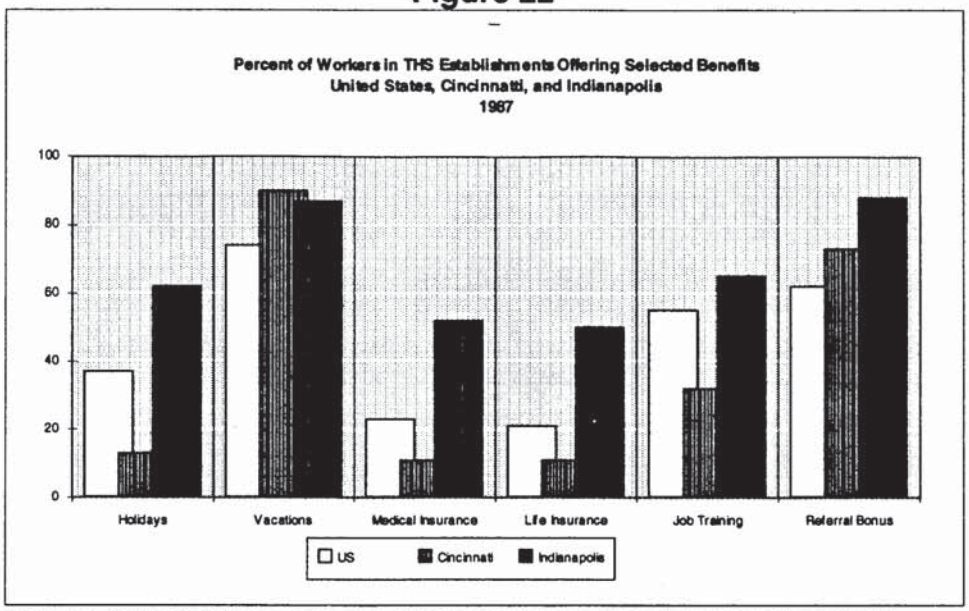
Temporary Help Services Industry

National Data

In September, 1987, the BLS (DOL, BLS, 1988) conducted a survey of wages and benefits in the temporary help supply industry (THS). Out of 3488 establishments within the scope of the study, responses were obtained from 739. Nearby communities included in the sample were Cincinnati and Indianapolis. Figure 22 illustrates the

availability of selected benefits for THS workers in these locales as well as the national average.

Figure 22



Source: Industry Wage Survey: Temporary Help Supply September 1987, Bureau of Labor Statistics

The relatively small sample size reduces the confidence one can have at the city level; however, Cincinnati seems to have much lower values for offerings of holidays, medical insurance, and life insurance. Indianapolis' values were on the higher end of all of the cities covered. Generally, the data indicates that vacation and referral bonuses are the most frequently offered benefits and medical insurance the least.

Kentucky THS Establishment Survey

A review of the data available regarding temporary and part-time employment revealed a gap in state specific information on the benefits offered within the temporary help services industry. Since the present 0study resolution called for an examination of benefits provided in that industry, a telephone survey instrument was devised, and interviews conducted during early May, 1993.

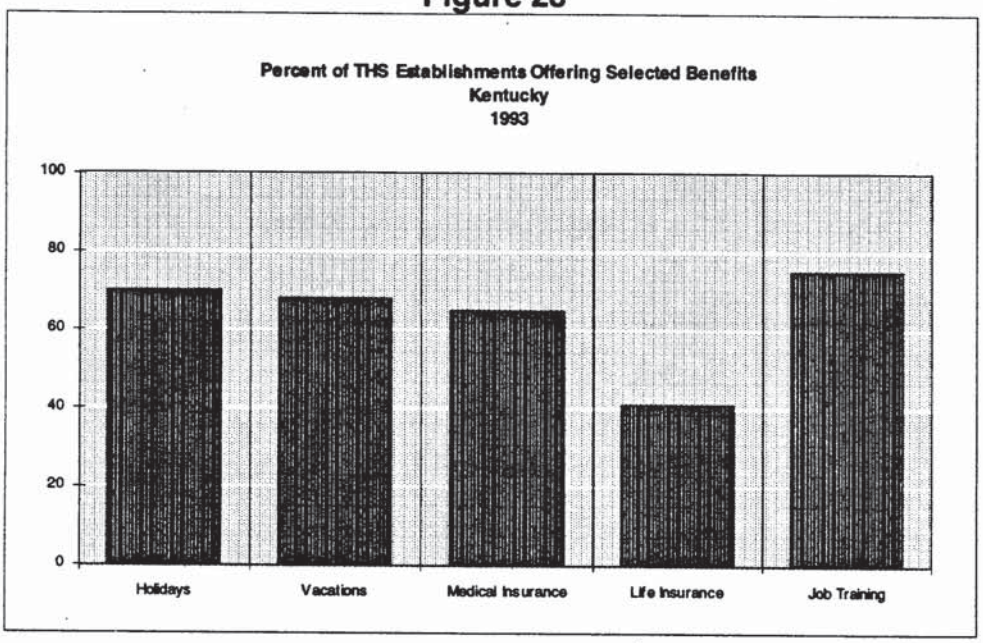
Using the 1992-93 *Kentucky Business Directory*, which lists businesses according to their Standard Industrial Code (SIC), interviewers attempted to contact all 123 agencies listed under the classification "Employment Contractors Temporary Help" (SIC 7363). Licensed employment agencies (SIC 7361) were excluded, because they do not employ temporary workers themselves, but act as agents for individuals seeking permanent employment. Seventy-one responses (which represented 76 site locations) were completed. Of those who failed to respond, the most frequent reasons were either that the respondent did not want to participate (15) or that the interviewer could not contact an agency using the listed telephone number (14).

The survey gathered information on three topics: the fringe benefits available to temporary workers employed by the agency and any associated qualifying requirements to receive them; the range in hourly pay, average pay, and the predominant types of job placement by industry sector; and the percentage of temporary workers who worked full- or part-time schedules. The findings are presented in more detail below.

Benefits

Figure 23 illustrates the percent of respondent agencies that offer selected benefits.

Figure 23



Fifty-three temporary help agencies (74.6%) reported access to training resources as a benefit they offer. Generally, the help provided was described as word processing or computer skills training. Some agencies periodically train employees on new computer programs as these become available or a change in job assignment necessitates. Others indicated that the "training" consists of a PC and its accompanying instruction manuals or tutorials, so that the temporary worker basically has to learn on his or her own. In this sample, the larger, nationally-franchised agencies generally appeared to provide the most extensive training.

Paid vacations and holidays are offered by 67.6% and 70.4% of the respondents respectively, but completion of a specified number of work hours are required to qualify for either. For example, average hours needed for a one-week vacation are 1,546, ranging from a low of 960 to a high of 3,500. Similarly, holiday qualifying hours average approximately 1,000 , but range from 280 to 2,000. Since the qualifying time generally must be accumulated within a continuous 12-month period, many temporary workers never earn a paid holiday or vacation. At an average of 1,000 hours work needed for holiday credit, a temporary worker must work about 25 weeks on a full-

time schedule. Similarly, at the average 1,546 hours needed for vacation time, 38 full-time work weeks are required, or about nine and one half months.

Group health insurance is made available by 64.8% of respondents; however, a majority of those who offer this benefit require the employee to pay the entire premium. Twelve agencies match the employee contribution, while only two pick up the entire cost. Approximately one-fourth of the agencies require a period of employment with them prior to eligibility for coverage. With just 4 percent of the agencies actually paying the full cost, and a minority contributing 50% for this benefit, a better characterization for those in the latter group is to say that access to a group policy - which may be less costly than individual coverage- is the actual health benefit offered.

Pay incentives are another fringe benefit offered by 62% of the agencies and may take the form of bonuses for completing a job assignment on or before the scheduled end date; merit raises, which may occur annually, or on a job-specific basis; bonuses for referring either new temporary hires, or potential client firms; and pay increases associated with longevity of employment with the agency. Thirteen agencies indicated pay incentives are offered on a discretionary basis by their third party client firms. Bonuses and awards, such as, "employee of the month", represent one-time payments and therefore have less value than merit or longevity pay increases.

Access to group life and group disability insurance policies were benefits available from 40.8% and 22.5% of the agencies respectively. Some required a specified period of employment hours to qualify for coverage. Others indicated that life and disability coverage was included in their general health insurance policy. No information was obtained regarding whether premiums for these benefits were paid by the employer, the employee, or on a co-pay basis. Again, comments during the interviews left the impression that firms provided access to group policies, which may be less expensive than individual coverage. The option to enroll in all instances was with the temporary worker.

Benefits offered by a small percentage of respondents include the following: paid sick leave (7%), tuition assistance (8%), retirement or pension plan (6%), child care discounts (5%), and employee of the month cash bonuses (5%). While specific questions covered sick leave, tuition assistance, and pensions, the responses on child care, and "employee of the month" came under a general "other" category and hence were more dependent on the respondent's spontaneous recollection at the time. For that reason, those items may be to some extent undercounted. For example, one or two firms offered Employee Stock Ownership Plans. Another mentioned access to discounted prices for various professional services. Some respondents considered the "employee of the week or month" as a pay incentive item, while others put it in this miscellaneous category.

Pay and Type of Employment

Average hourly pay was $6.28 for the 45 agencies which responded to that question. The range in average pay was from a low of $4.25 (minimum wage), for a firm which placed most of its workers in manufacturing plants for fairly short-term assignments, to a high of $25, for a firm specializing in placement of engineers.

Agencies were questioned regarding the level of both their lowest and highest paying positions. Minimum wage was the lowest hourly pay reported by 41.7% of the respondents. Another 50% (the mode) paid in excess of the minimum wage, but no more than $5 per hour as their lowest pay. Five agencies exceeded $5 hour as the lowest pay. The overall average calculated to $4.77 per hour. The range for the highest paying positions went from a base of $5.00 per hour to $80 per hour and averaged $17.18 per hour overall.

Concerning the types of job placements typically made by each agency, the majority (52.2%) failed to specify whether their workers were unskilled laborers, skilled labor, clerical/secretarial, or professionals. Of those which did respond to this question, the replies are outlined below.

Category	# of Responses
unskilled laborers	1
skilled labor	13
clerical/secretarial	3
professional	15

These temporary help supply agencies reported the following pattern of industry placements. The highest response was in manufacturing (56%), followed closely by business services (53%). Light industrial was a distant third, with 12.7%, followed by construction, health care and "other," tied at 7.0% apiece. Services (2.8%)and wholesale trade (1.4%) were least represented. Percentages exceed 100% in total because some of the respondents listed placements in more than one category.

The average reported length of a normal temporary job placement was just over 11 weeks; but the range was broad--from one to as long as 84 weeks. Only seven agencies reported that 50% or more of their "temps" worked on a part-time basis (35 hours a week or less), while the remaining 40 who responded to this question reported placing nearly three-quarters (74.4%) of their workers in full-time jobs.

Anecdotes From Interviewers

Staff who conducted the telephone interviews met for a debriefing session after the survey was completed. Non-quantitative comments from the temporary service respondents were informative and deserve mention here. Many respondents reported the belief that they often assist the unemployed to find permanent employment--usually with the client firm which initially hires them on a temporary basis. While some agencies charge the client firm a penalty if such hires occur before expiration of the contract, many do not. Those we spoke to appeared pleased--rather than frustrated--when good employees went on to permanent employment.

Another function these agencies perform, according to their self-reports, is to screen potential employees for client firms. This saves the client firms substantial time and money that otherwise would be required to interview multiple job applicants. It appears that several of the smaller, independently owned (non-franchise) agencies have

consequently built up a symbiotic relationship with larger employers in the community.

The third major theme which emerged was the perceived value of job-related training and job readiness skills imparted as a "temp" participates in the workforce, with backup from the agency as needed. In the view of many respondents, these agencies often assist their employees in learning to be better workers.

Conclusions

Based on the survey of temporary help services agencies in Kentucky, the following conclusions are drawn.

(1) temporary workers employed by temporary help agencies generally work on a full-time basis during their job assignments;

(2) most agencies make job placements within the manufacturing and business service sectors of the economy;

(3) hourly pay generally increases with the skill level of the "temp";

(4) major fringe benefits, such as vacation and holiday time, usually require a certain period of employment with the agency for the individual to qualify;

(5) other fringes, particularly insurance, are made available, but "temps" often bear all premium cost;

(6) the temporary help industry, in addition to supplying the business community's need for "contingent" labor, may also play a positive role by assisting temporary workers to learn new skills, which may enable them to join (or rejoin) the permanent workforce.

Kentucky State Government Benefits

Staff of the LRC State Government Committee, in cooperation with the Department of Personnel, have compiled a listing of fringe benefits available to state workers. From those records, a comparison between benefits for full-time and contingent personnel is presented in Table 7.

Permanent part-timers compare most favorably with full-time personnel, with provisions that they must work 100 hours per month in order to be eligible for annual and sick leave. As one moves into the non-permanent classes, however, their more tenuous connection with the workforce is reflected in decreasing fringe benefit eligibility. Seasonal workers forfeit pay bonuses under the employee suggestion system, annual leave, performance awards, and participation in the sick leave sharing program. Provisional, temporary, and emergency staff are offered the least benefits; the state health insurance and retirement plans are not available to these workers, although annual leave is available to provisional workers.

Table 7

Executive Department Appointment and Benefit Chart
(September 1993)

BENEFIT	FULL-TIME	PART-TIME	SEASONAL *(Not to exceed 11 months)*	PROVISIONAL *(Not to exceed 6 months)*	TEMPORARY *(Not to exceed 6 months)*	EMERGENCY *(Not to exceed 30 days)*	FFTL[1]
Credit Union	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deferred Compensation[2]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Educational Achievement Award[3]	Yes	Yes	Yes	No	No	No	Yes
Employee Assistance Program[4]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Employee Suggestion System[5]	Yes	Yes	No	Yes	No	Yes	No
Insurance - Automobile Liability	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Insurance - Dental[6]	Yes	Yes	Yes	Yes	No	No	Yes
Insurance - Health[6]	Yes	Yes	Yes	Yes	No	No	Yes
Insurance - Life[6]	Yes	Yes	Yes	Yes	No	No	Yes
Leave - Annual	Yes	Yes[7]	No	Yes	No	No	Yes
Leave - Compensatory[8]	Yes	Yes	Yes	Yes	Yes	No	Yes
Leave - Court	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Leave - Educational	Yes	Yes	Yes	No	No	No	No
Leave - Family Medical[10]	Yes	Yes	Yes	Yes	Yes	No	Yes
Leave - Military[9]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Leave - Sick	Yes	Yes[7]	Yes	Yes	Yes	No	Yes
Leave - Voting[11]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Maintenance Allowance[12]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Retirement[14]	Yes	Yes	Yes	No	No	No	Yes
Sick Leave Sharing Program[15]	Yes	Yes	No	No	No	No	No
Social Security[13]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Unemployment Compensation	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wages - Compensatory[8]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wages - Overtime[8]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wages - Shift Differential[16]	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Worker's Compensation	Yes	Yes	Yes	Yes	Yes	Yes	Yes

FOOTNOTES
Prepared by Joy Van Curon Blanton and Barri Christian
(September 1993)

1. On August 1, 1993, there were 51 Federally Funded Time Limited (FFTL) employees.
2. Definition of "employee" in KRS 18A.230 includes all employees.
3. Has to have completed 260 classroom hours outside of regular work hours to be eligible.
4. Employees who have personal problems that interfere with their job performance are eligible; e.g., alcohol or drug abuse.
5. A program through which employees are financially rewarded for suggestions that improve state service. Unclassified employees not eligible.
6. To be eligible an employee must be a contributing member of a state retirement system; i.e., employed at least nine months.
7. Must work at least 100 hours per month.
8. Subject to the provisions of the federal Fair Labor Standards Act.
9. Certain employees may be relieved from their civil duties for training purposes, not to exceed 10 working days, without loss of pay. Employees entering military service voluntarily or involuntarily shall be granted leave without pay up to six years and shall be paid for all accumulated leave.
10. Subject to the federal Family and Medical Leave Act.
11. At least four hours; applies to all registered voters of the Commonwealth.
12. The value of this allowance shall be treated as part-payment and shall be deducted from the appropriate salary rate in accordance with a schedule developed by the Personnel Commissioner after consultation with the employee's appointing authority and the Secretary of the Finance and Administration Cabinet.
13. Kentucky teachers are not eligible.
14. To be eligible an employee must be appointed for a minimum of nine months.
15. Donors must have accumulated at least 75 hours of sick time.
16. For employees who work evenings or nights.

SOURCE: Kentucky Revised Statutes, Kentucky Administrative Regulations, and the Kentucky Department of Personnel.

Summary

Data indicate that standard fringe benefits are less likely to be offered to all of the forms of contingent labor considered here than they are to comparable permanent full-time employees. Private part-time workers are more likely to be offered paid holidays and vacations than they are medical insurance or sick leave. Nationally, public part-time workers are somewhat less likely than private part-time workers to be offered paid holidays and vacations, but are more than twice as likely to be offered medical insurance, life insurance and retirement benefits.

Access to benefits for those working through THS agencies is similar to that for part-time workers. Overall, few have access to the benefits available to most permanent employees. Paid holidays and vacations are more likely to be available than medical or life insurance, which, even if available, is rarely provided at either the client employer or THS agency's expense.

Benefits offered to part-time workers in Kentucky State Government compare favorably with the national data for the public sector. All benefits provided to full-timers are available to part-timers, as long as they work 100 hours or more per month. However, temporary employees in Kentucky State Government are not eligible for health insurance, annual leave or retirement.

CHAPTER V

CONCLUSION

Supply of and Demand for Contingent Labor

The growing use of contingent labor is the result of a complex interaction in the supply of and demand for different types of labor. Key components having a positive impact on growth are:

1. a shift toward service industries that in many cases cannot efficiently employ full-time staff.
2. a globally competitive economy that requires high levels of flexibility in production inputs, including labor.
3. a growing prevalence of family issues in the workplace, as the number of both two-income households and single-parent households has increased.
4. the impact of automation on the skills required of previously existing jobs and on the creation of new technical jobs. A devaluation of the skills of the long-term office worker minimizes cost of replacement. The new, expensive and sporadically needed technical systems professions are often most efficiently applied in a contingent arrangement for the small and medium sized business.
5. the development of the temporary help supply industry as a clearing mechanism that provides a readily available option for both employers and employees.

Key components having a potentially negative impact on the growth of contingent labor are:

1. contingent workers may inhibit company performance to the extent that they fail to personally identify with overall company goals and objectives.
2. contingent jobs generally offer the worker fewer fringe benefits, lower pay for the same type of work, and fewer advancement opportunities.
3. increased conflict among personnel may result from a two-tiered employment structure.
4. there may be increased exposure to erosion of a knowledge-based competitive advantage.

Contingent Workforce Incidence and Trends

At the national level, the following major patterns in contingent labor arrangements were observed. Roughly 80 percent of part-time workers voluntarily choose that working arrangement. Women, youth and older workers comprise about 80 percent of those working part-time. Involuntary part-time employment exhibits a strong cyclical pattern relating to recessions. However, it is interesting to note that the percent of total employment comprised by those working part-time involuntarily was virtually the same in the pre-recessionary troughs of 1980 and 1990. During this period, the total growth trend was relatively flat.

The temporary help services industry (THS) accounts for a very small percentage of total employment. Although the percentage increases in the size of the sector are quite large, this is normal for any new industry. The large percentages may be as much a function of the small initial size of the sector as they are a function of its rapid growth. The "recovery" years of 1992 and 1993 have seen particularly strong growth in the THS industry relative to overall employment. The overall employment gains of this "recovery" fall far short of any other post-recession period; it is likely that many employers are reluctant to commit to new full-time employees at a time when future growth is uncertain. Only future experience will tell us to what extent the latest years represent the employers' response to a sluggish economy, as opposed to a significant structural change in the way people are employed.

Some have projected dire consequences for the U.S. labor force on the basis of assumptions that the large percentage increases in THS will continue long-term. However, the supply component of this form of labor cannot be ignored; in the absence of further significant demographic or preference changes among those individuals who supply temporary labor, the growth of THS is likely to be somewhat bounded. Therefore, while this new labor market arrangement is definitely becoming more commonplace, those who warn that it will replace the major share of permanent labor arrangements are likely overstating its growth potential.

As with part-time labor, women and the young make up a majority of those employed through THS agencies. It is not known what percentage of THS workers are in the arrangement voluntarily. Administrative support, laborer and administrative and professional occupations account for the majority of THS placements. Production occupations are those most under-represented in THS placements. Therefore, it is believed that the growth in this industry comes largely from sector shifts to a more service oriented economy and from the changes in office technology. This data does not show that typical skilled manufacturing occupations are included in the growth of the contingent labor sector. Two major occupational types appear to account for most of the growth. First are those which are low-skill. The contingent market for laborers is long-standing. However, advances in office technology have largely de-skilled and standardized clerical tasks. This change has allowed these jobs to be filled on a temporary basis as well. Second are those which are high-skill and therefore high-cost, but which are needed only intermittently by an organization. Computer specialists, accountants and personnel managers are increasingly being employed only on an as-needed basis.

From these data it appears that, in general, the size and growth of Kentucky's private contingent labor force is similar to that of the U.S. as a whole. Historically, Kentucky has had a slightly larger share of those who are working part-time involuntarily, which may be attributed to the concentration of structurally weak economies in the eastern part of the state. Kentucky also has slightly fewer workers in the temporary help services industry (THS) and those workers have a lower average salary than THS workers across the U.S. It is believed that the major reason for the lower average salary is that this particular labor market is likely more developed in large urban economies, which are more concentrated in the service sectors than is the Kentucky economy. This means that there are likely to be more technical and professional occupations included in the U.S. data than in the Kentucky data. This situation could also reflect the fact that the skill-level of Kentucky THS workers is below the average for the U.S. Note that data on temporary work arrangements outside of THS agencies was not available for either the national or state level.

Although it follows a cyclical pattern apparently related to changes in gubernatorial administrations, the use of various categories of contingent labor in Kentucky state government has generally been increasing during the period covered by the data. Increases in the number of permanent part-time state employees accounted for most of the overall increase in state contingent workers. Seasonal full-time workers also account for a significant share of the state government contingent work force. While their four-year cyclical pattern is quite pronounced, the overall growth trend is relatively flat. Temporary full-time and seasonal part-time labor arrangements have increased in number, but still make up a very small share of the total contingent segment of state employees. Before 1989 the pattern was that state government contingent labor tended to increase when permanent full-time employment decreased. However, since that time, the two types of state government employment have tended to increase and decrease together.

Benefits

Data indicate that standard fringe benefits are less likely to be offered to all of the forms of contingent labor considered here than they were to comparable permanent full-time employees. Private part-time workers are more likely to be offered paid holidays and vacations than they are medical insurance or sick leave. Nationally, public part-time workers are somewhat less likely than private part-time workers to be offered paid holidays and vacations, but are more than twice as likely to be offered medical insurance, life insurance and retirement benefits.

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However, temporary employees in Kentucky State Government are not eligible for health insurance, annual leave or retirement.

Conclusions

House Concurrent Resolution No. 10 identified six questions for review. This section presents a brief response to each question. (Note: The questions are slightly rephrased for the sake of exposition.)

(a) To what extent are contingent workers utilized in the private and state government workforce? In the most recent data available, part-time workers accounted for 20% of the Kentucky work force and those employed through THS agencies accounted for one percent. In FY 1992, part-time workers accounted for approximately 10 percent of the state government work force and seasonal and temporary full-time workers accounted for approximately 4 %.

(b) Is the use of contingent labor a growing trend in Kentucky, compared to the U.S.? In general, the trend of contingent labor usage in Kentucky mirrors the national trend. Prior to 1992, Kentucky had slightly more workers who were part-time involuntarily than the U.S. Kentucky also has fewer workers placed through THS agencies.

(c) What fringe benefits are offered to contingent workers? All categories of contingent workers are less likely to have access to fringe benefits than comparable full-time permanent workers. The benefits most likely to be offered to private contingent workers are paid holidays and vacations. Medical insurance, life insurance and retirement plans are the benefits least likely to be offered to private contingent workers. Conversely, public contingent workers are more likely to be offered insurance and retirement programs than paid holidays and vacations. Of the contingent workers in Kentucky state government, part-timers compare very favorably with full-timers, with the only restriction being a need for 100 or more hours per month to qualify for annual and sick leave. Temporary employees, however, are not eligible for health insurance, annual leave, or retirement.

(d) What type of fringe benefits are needed? "Need" is difficult for the researcher to discuss, since defining need involves value judgments. However, two pieces of information may inform the policy discussion. First, it is clear that contingent workers are far less likely to have access to those benefits which, by their absence, represent the greatest risk of major financial disruption, such as medical insurance, life insurance and retirement plans. Second, it should be noted that, just as it prevents state regulation of benefits for most non-contingent workers, the federal ERISA (see Chapter II for a description) is likely to limit the ability of state lawmakers to mandate the provision of particular benefits to contingent workers. Of course, decisions regarding the benefits

made available to contingent workers in state government remain under the purview of state legislators.

(e) Are any additional state protections necessary for contingent workers? A review of Kentucky and federal law indicates that contingent workers are afforded all of the same statutory protections currently applicable to permanent full-time workers. This is true even though contingent workers may receive fewer financial benefits from such protections. For example, a contingent worker will not necessarily receive unemployment insurance benefits. The reason, however, would be an inadequate number of hours worked, rather than a difference in the protection afforded under the statute. Thus, the question of whether additional state protections are necessary for contingent workers might better be phrased as whether additional state protections are necessary for all workers, or whether the eligibility requirements for state employment programs should be changed.

(f) Should increased employment of contingent labor be encouraged or discouraged as a matter of public policy? This staff report cannot offer a recommendation regarding the preferred direction of public policy in this matter. However, the following information is offered to assist policy makers in that determination. The first point to note is that the growth of contingent labor is a function of changes in the characteristics of both labor supply and labor demand. The three major forces driving the increase in contingent labor arrangements are demographic changes in the make-up of the work force, the internationalization of the U.S. economy, and technological changes in the work place. These forces are largely outside of the realm of influence of state policy makers. This circumstance opens up the possibility that an unintended effect of attempts to mandate changes on the private contingent labor market might be to make state contingent labor less attractive to firms, who may then choose to reduce the scope of Kentucky operations rather than hire more full-time permanent employees.

However, many workers in contingent arrangements prefer such arrangements and would not be in the work force if their only option were permanent full-time work. Therefore, policy makers may want to target policy proposals more directly toward those who are in contingent work arrangements involuntarily. Given the difficulties associated with regulating the entire contingent labor market, it may be that the most direct method of assisting those in involuntary contingent employment is for the state to implement programs designed to help improve work-related skills. This effort would help those who so choose to more effectively compete for permanent full-time positions, which are more likely to offer the desired fringe benefits.

If the goal is to improve the benefits offered to contingent workers, another possible approach is for state government to offer the desired set of benefits to its own contingent workers. This action would set the standard that policy makers would like to establish, and would put direct market pressure on other employers of contingent labor to match state-offered benefits or find themselves at a disadvantage in competing for high-quality contingent workers. Finally, the policy question of whether state

government itself should employ contingent workers in greater or fewer numbers is not considered to be within the purview of staff researchers.

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