

**The Shadow Workforce**  
**Perspectives on Contingent**  
**Work in the United States,**  
**Japan, and Europe**

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## Introduction

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As early as the mid-1970s, observers of private sector employment practices in the United States commented on an emerging new phenomenon: the increasing use of nonstandard workers—that is, employees who are hired under a variety of nonstandard arrangements without a permanent connection to an employer. These include part-time employment; hiring through temporary help employment agencies, such as “Kelly Girl” clerical services; self-employed consultants; employees leased, contracted, or subcontracted from business service firms such as advertising or janitorial firms; multiple-job holders; and day laborers.<sup>1</sup>

Although companies historically have used nonstandard workers, the relatively rapid growth rate of these workers in a wide range of industries and occupations has become pervasive (see Nye [1998] for examples). At the time the change was identified, the available data made it difficult to measure exactly what was occurring, although the trend appeared to be similar in both the private and public sectors (see Light [1999] for examples in the federal government). Today we have better data but they provide disparate estimates of the extent of nonstandard employment.

Nonstandard employment arrangements have received increased attention due to several factors. First, ongoing changes suggest that the trend toward greater use of nonstandard employment is likely to continue. The restructuring of the economy in the post–World War II era in an increasingly global economy has continued. The pace of this change has been heavily driven by technological advances and the “information age,” and encouraged by the increase in the share of total compensation (i.e., wages and fringe benefits) represented by legally required benefits such as Social Security and nonwage benefits such as health care. These economic forces have encouraged employers to seek more options to control or reduce labor costs. Illustrative examples include

the use of temporary workers during a short period of peak demand and long-term strategies to improve productivity by subcontracting the peripheral activities of the firm to companies specializing in services such as accounting. Several terms are used interchangeably to identify these employment arrangements, including nonstandard work or nonstandard employment, atypical employment, contingent work, alternative staffing strategies, flexible work arrangements, as well as the phantom workforce and the shadow workforce (Belous 1989; Carré et al. 2000; Delson 1995; Light 1999; Nollen and Exel 1996; Nye 1988; Polivka, Cohany, and Hipple 2000; Reilly 2001).<sup>2</sup>

Second, while nonstandard employment provides for many employers a buffer for market changes, it often provides relatively unstable employment for workers due to their dependence on the varying needs of the employer. Also, wages can be lower, and many workers do not receive benefits such as health care and pensions. Consequently, the perceived movement away from the twentieth-century model of “good jobs,” defined as full-time employment with a continuous attachment to one employer, has raised questions about how “good jobs” will be defined in the future.<sup>3</sup>

Finally, it has become apparent as we have learned more about the nonstandard workforce that it is disproportionately staffed by women, younger workers, and minorities (see Fagan and O’Reilly [1998] and Zeytinoğlu and Muteshi [1999] for further discussion). Indeed, early research in the United States particularly stressed the negative impact on women.<sup>4</sup> Furthermore, not all of these workers are voluntarily in contingent employment. Some would prefer full-time employment in a standard work arrangement.

Our understanding of the growth of nonstandard employment and its impact on employers, employees, the labor force, and public policy has evolved over the past two decades. In the 1980s much attention was focused on the identification of the dimensions of the change and trying to explain why it was occurring. During the 1990s, more sophisticated explanatory models were developed and tested. These models explained the advantages and disadvantages of nonstandard work from the perspectives of both the employer (the demand side of the labor market) and employee (the supply side of the labor market). This was a departure from previous research, which tended to focus primarily on either the demand or the supply side of the market, and treated this workforce

as a relatively homogeneous group without appropriate attention to the multiple forms of nonstandard employment arrangements. Not surprisingly, different authors with varying foci reached different conclusions about the positive, negative, or neutral impact of these arrangements. For example, those studying the implications for unions typically saw the impact on the labor force as highly negative, while those analyzing the benefits for employers generally concluded that there were many positive benefits.

Researchers today present a more balanced outlook, which has synthesized the divergent perspectives of employers and employees. It recognizes the heterogeneity of this group of workers and both the advantages and disadvantages of nonstandard employment to the parties involved. This in turn is encouraging more attention to the public policy measures designed to provide more protections and improve working conditions for nonstandard employees.

This book provides an overview of the facts and issues of nonstandard employment in the countries where this labor market phenomenon has been most studied: the United States, Japan, and the European Union.<sup>5</sup> Although the authors have used nontechnical language for general readers who are not specialists in labor market analysis, scholars and human resource professionals also will find these essays of interest. The book presents a balanced perspective on the advantages and disadvantages of nonstandard employment arrangements from the viewpoint of employers and employees; it does not advocate a particular philosophical perspective. Chapters 2 through 6 focus on the United States, while Chapters 7 through 9 focus on Japan and Europe. The final chapter summarizes the future directions for research identified by the authors.

## **KEY CONCEPTS**

A number of concepts are used repeatedly throughout the book that are key to understanding the discussions. These concepts include the measurement of the shadow workforce, the heterogeneity of these workers, labor market flexibility as seen from both the employer and employee perspectives, the use of core and noncore workers in strategic

hiring decisions, and the tension between regulation and deregulation in the public policy debates.

### **Measuring the Nonstandard Workforce**

Those interested in studying the nonstandard workforce initially were hindered by the lack of labor market employment data designed to focus in detail on this segment of the workforce. Also, the variety of forms of nonstandard employment made it difficult to determine how many people were in each employment category. In response to the need for data, in 1995 the U.S. Bureau of Labor Statistics (BLS) added more questions to the Current Population Survey (CPS) in a supplemental survey conducted every two years called the “Contingent and Alternative Work Survey” (CWS). The CWS measures the size of the labor force in nonstandard work arrangements by the type of employment arrangement and for workers employed for less than one year in jobs that are contingent on the needs of the employers. We now have time-series data indicating that, since 1995, the characteristics of contingent workers have changed little.

As discussed in more detail in Chapter 2, the data show that, by 2005, workers hired in nonstandard employment arrangements represented about 4.1 percent of the labor force based on the broadest measure of contingent work developed by the BLS, but this is about a 1.1 percent decrease from 1995.<sup>6</sup> These facts sharply contrast with the popular perception that nonstandard work is rapidly replacing standard work arrangements. However, the estimate is based on the responses provided by workers, but not all workers were able to answer the question of whether their employment was contingent. If the respondents who were uncertain about the contingency of their employment arrangements were included, contingent employment would be about 10 percent (Belman and Golden 2000).

The BLS definition of alternative employment arrangements indicates that about 10.7 percent of the workforce fell into this group in 2005, but there is some overlap between this measure and the contingent work measure.<sup>7</sup> Several studies have analyzed this overlap. Even when using the broadest measure of contingency, one-third of the employees of temporary help agencies were not contingent workers in 1995, and in 1997 about 19 percent of total employment was in regular self-employ-

ment or regular part-time employment (Cohany 1996; Polivka 1996). However, if the regular self-employed and regular part-time workers also are included, 29.9 percent of the labor force in 1999 was in a nonstandard employment arrangement (Hipple 2001; Polivka, Cohany, and Hipple 2000). Because this group of employees has been relatively invisible to employers, as well as within the total labor force, it has been labeled as a “phantom” of the larger full-time labor force employed in standard employment arrangements; its true size is unknown.<sup>8</sup>

### **The Heterogeneity of the Nonstandard Workforce**

Analysis increasingly has taken into account the substantial differences between the various subgroups of nonstandard employees, whether the choice to be in nonstandard employment is voluntary or involuntary, and the resulting economic impact of the employment arrangement on the employee. For example, a male computer programmer who is a college graduate and voluntarily chooses to work as a well-paid, full-time consultant to a software firm is in a very different arrangement than a female with a high school education who works part time in a retail store earning the minimum wage when she prefers a full-time position. She usually has no fringe benefits such as health insurance or an employer-provided pension, and she experiences inferior working conditions and has little or no job security.

Although both workers are in nonstandard employment arrangements, it is clear that the consultant is not harmed by this arrangement; he may in fact be employed for several years on a project with the same employer. In contrast, the female retail clerk is disadvantaged in the labor market by her contingent status. Consequently, relatively few policy concerns have been articulated about workers such as the computer consultant. Most of the public policy discussion has focused on workers who, like the retail clerk, are relatively disadvantaged by involuntary contingent employment, particularly those who are working-class, minority or immigrant, and less educated (Bernasek and Kinnear 1999; Carré et al. 2000; Zeytinoglu 1999). Without careful attention to this heterogeneity, research may either over- or understate the labor market problems faced by these workers. This, in turn, can result in inappropriate and ineffective policy recommendations (Lester 1998).

Consequently, care must be taken to avoid generalizations about the impact these highly varied employment arrangements have on workers. Such generalizations do not provide useful insights and can be misleading. The impact of being in a contingent job varies greatly with the type of employment arrangement, industry sector, occupation, education, and employee demographic characteristics such as age, gender, and race (Belman and Golden 2000). As Ferber and Waldfogel (2000, p. 214) note: “. . . the answer to the question of whether part-time jobs are bad jobs is ‘it depends.’”

### **Core and Noncore Workers**

Discussions about the use of nonstandard employment arrangements frequently draw a distinction between two groups of employees. The first is the “core” workers who perform the work most closely tied to the primary economic activities of the employer. Core employees are in standard employment arrangements, which means they have full-time jobs with a permanent connection to a single employer, usually receive a range of social insurance benefits, and have some protection from arbitrary dismissal (Vosko 1998). The second is the noncore, or “peripheral,” workers whose work is not the core work of the organization (see Reilly [2001, pp. 47–49] for a typical discussion of core and peripheral workers). An example for a manufacturing company would be the use of a core employee trained to perform a specialized task on an assembly line, while a peripheral employee would be hired to perform janitorial work through a subcontract with a firm that specializes in janitorial services.

The use of noncore workers in various types of nonstandard employment arrangements offers the firm more flexible opportunities to do its work while protecting the employment security and avoiding layoffs of its trained and experienced core workers. The use of contingent employees can be an ad hoc tactical approach to address short-term needs, such as covering the maternity leave of a core employee, or a strategic response developed to deal over time with an increasingly global and dynamic economic environment. Nonstandard employees allow an employer to use “just-in-time” management of labor to increase, decrease, or reassign its workforce (Lewis and Molloy 1991). Nonstandard employment arrangements can be used, for example, to adjust to fluctua-

tions in the demand for its products, reduce labor costs, reduce the in-house time spent on a variety of human resource administrative and monitoring functions for peripheral workers, subcontract for special projects for which a set of skills is needed for only a limited time period, manage unexpected or temporary staffing needs such as an illness or vacations, and to temporarily add a position as a way to determine whether a new core position is needed. To achieve the flexibility desired for both tactical and strategic adjustments one employer may use one or more of these different employment arrangements simultaneously. For a detailed discussion of how to determine whether to hire a core or non-core employee for a particular job, see Roberts and Gleason (2000).

## **Flexibility**

As discussed earlier, flexibility gives employers more options for rapid and nimble adjustments to changes in the economic environment through internal adjustments to their strategic hiring and staffing plans. Similarly, some employees want greater flexibility so they can more easily combine work with their lifestyle preferences.

Much of the discussion of employer flexibility has focused primarily on numerical flexibility at the enterprise level, i.e., adjusting the number of workers or hours of work in response to product demand. However, two other types of flexibility also are important to employers. Functional flexibility, the design and organization of jobs so that employees can be used in a wide range of tasks, permits rapid reassignment to different jobs. Financial flexibility includes hiring decisions designed to control or reduce short- and long-term labor costs and the use of different systems of compensation such as subcontracting.<sup>9</sup> However, when this results in contingent employment with lower-wage jobs and fewer benefits for workers, the welfare of workers is reduced, and some workers are unable to exercise their preferences for full-time employment.

Some employees voluntarily choose nonstandard employment because of lifestyle preferences or because it provides the flexibility to combine employment with other daily demands. For example, women with small children may be conceptualized as making a labor market choice among three options: not working, working part time, or working full time. Some women will voluntarily choose part-time work so

they have time to care for their children (Tam 1997). As a result, greater workforce diversity had placed new demands on employers to develop employment options that are more family-friendly and recognize the different needs of employees.

The concept of the “flexibilisation of labor” was coined by Delson (1995) to denote an inclusive framework of factors that result in greater labor market flexibility. This includes employer actions, employee choices, and the legal and institutional framework that structures labor market relationships. Reilly (2001) discusses the concept of “mutual flexibility” which “. . . lies in balancing the understandable needs of employers to be efficient and competitive with the equally understandable needs of employees to protect their incomes and lead the lifestyle that suits them” (p. xi). These are both multidimensional views of flexibility, broadly defined.

### **Regulation or Deregulation**

Fundamental transformations are under way in the global economy. New forms of technology are developing, and the structure of the industrialized nations is continuing to shift away from traditional manufacturing toward services and information technology industries. In response to these changes, nations are evaluating the laws and labor market institutions created in the past to identify the changes required for the dynamic global economy of the twenty-first century. A frequent tension encountered is whether, or to what degree, good public policy should regulate or deregulate the institutions that structure labor market activities. This is a debate about the role of government policy in supporting or limiting labor market flexibility. Tensions arise between regulation advocates, who seek to develop new laws to address problems faced by nonstandard employees, and deregulation advocates, who want to remove the legal and institutional barriers to flexibility created by existing laws. Thus, what employers and workers can and cannot do is constrained by public policy as embodied in law and other regulations. This public regulation is complemented by the private regulation negotiated by employers and unions through collective bargaining.

Each type of nonstandard employment exists in its current form because there is either a relative absence of a regulatory environment or a regulatory environment that frames its use. For example, in the

United States employers have been able to expand the use of part-time employees with few legal obstacles and little effort to change the institutional framework. Also, the temporary help industry has worked since the 1960s to establish the legal concept of a temporary help firm as the employer, instead of the client firm that actually uses the workers being defined as the employer.<sup>10</sup> This makes the client firm the customer firm, which may—but not always—relieve it of a number of costly legal responsibilities, as discussed in Chapters 5 and 6. This result has been achieved through lobbying and seeking influence over state administrative agencies, and has succeeded in achieving “conditional legitimacy” for the employer status of temporary help firms (Gonos 1997, p. 105). The business community in this case played a dominant role in the development of the law and public policy applied to temporary help firms. As a result the temporary help supply industry grew rapidly from 1972 to 1997 at an annual rate of more than 11 percent (Estevao and Lach 2000, p. 123).

The regulatory framework has, in turn, affected economic decision making. For example, in the United States the use of workers provided by temporary help firms is generally expected to reduce labor costs due to the relatively weak regulatory structure. In contrast, the European Union has created a regulatory environment designed to provide greater protections to these workers, which limits the degree to which client firms can expect to reduce labor costs (Vosko 1998, pp. 24–26).

Labor unions also are important labor market institutions that influence the legal and administrative framework. Many labor unions tend to oppose legal changes that will expand opportunities for part-time and temporary work at the expense of full-time employment. Recent evidence in the United States suggests that this opposition is not based on the lower hours of employment per se, but instead reflects the concern that part-time workers are paid a lower wage per hour than full-time workers. Various strategies are used to address unions’ concerns. Unions in the United States have used collective bargaining to limit or control the growth of nonstandard employment. In Japan and Europe unions have supported regulation by the government to control temporary employment agencies (Delson 1995, p. 108).

## **OVERVIEW OF THE BOOK**

This book is organized into three sections. The primary focus is the nonstandard workforce in the United States. Chapter 2 provides an overview of the nonstandard workforce in the United States, its demographic characteristics, and why it has grown. Chapters 3–6 build on this foundation, with discussions about the employer’s decision to hire contingent workers, labor union responses to the threats and challenges created by contingent work for unionized employees, the legal framework in which the decision to hire nonstandard workers of various types is made, and the impact of current public programs such as unemployment insurance on these workers. Chapters 7–9 focus on Japan and Europe and explore how these mature industrialized nations are coping with, and adapting to, contingent work within different socioeconomic and legal systems. Finally, Chapter 10 presents a summary and ideas for future research.

### **Perspectives from the United States**

In Chapter 2, von Hippel et al. provide an overview of the facts, theories, and issues related to the nonstandard workforce in the United States. As the authors note, even the seemingly simple question “How large is this segment of the workforce?” does not have an easy answer due to the variety of definitions used to measure this heterogeneous group of workers and the associated methodological challenges encountered by the Bureau of Labor Statistics (BLS). The BLS uses three estimates ranging from narrow to broad to measure “contingent employment,” which is work that is expected to last less than one year, and a fourth measure of “alternative employment arrangement,” which groups workers into four categories: 1) independent contractors, 2) on-call workers, 3) temporary help agency workers, and 4) workers provided by contract. The characteristics of the nonstandard workforce are identified by type of alternative employment arrangement, age, gender, race, level of educational attainment, occupational category, and industrial sector.

The chapter then provides an overview of the demand and supply sides of the labor markets employing contingent workers. Data are pro-

vided on workers' preferences for nonstandard work arrangements, as well as the impact of these arrangements on their earnings and selected fringe benefits. Workers' preferences for contingent or permanent work reflect their interests in flexibility for lifestyle or life cycle reasons. Employers use these workers to address the challenges they face, including the need to control or reduce labor costs, to be more flexible in adjusting to dynamic market conditions, and to avoid legal and other restrictions.

The authors argue that the changing nature of the employment relationship within the current global economic context suggests that the size of the nonstandard workforce is likely to increase in the future. As employers and employees understand more clearly the changing nature of employment relationships, both see the benefits from more flexible employment arrangements. This in turn means that we need to overcome some of the negative stereotypes previously associated with part-time and other forms of nonstandard work; we also need to address inequities in the operation of our social support systems, which were designed to serve primarily full-time employees in standard employment arrangements.

Miller and Barney discuss in detail in Chapter 3 how employers are responding to the rapidly changing competitive environment that has encouraged their increased use of contingent workers. They recognize that the use of contingent workers is only one option for managing the monetary expenses of wages and benefits and nonmonetary labor costs. Nonmonetary costs include a variety of transactions costs such as time spent interviewing job candidates, teaching firm-specific skills, and handling the administrative costs associated with contingent employees. The empirical research on the impact on labor costs of various transactions costs is summarized.

The authors argue, however, that the creation of a flexible workforce through appropriate investments in permanent employees, such as training in a broad range of skills, is an alternative to the use of contingent workers. The relative productivity of contingent and permanent workers depends on the employment situation. Consequently, when monetary and nonmonetary costs are considered, hiring contingent workers is not always the most cost-effective strategy.

Miller and Barney's analysis extends the basic benefit/cost analysis used by employers to evaluate strategic hiring decisions by combin-

ing two perspectives: the real-options approach and the resource-based approach. The real-options approach borrows from financial analysis the concept of “real options,” that is, investing in a real asset under conditions of uncertainty about demand, technology, and the actual productivity of employees. The owner of the option uses it for financial benefit when there are favorable conditions. For example, hiring temporary employees can be considered a real option during periods of high uncertainty, but companies may desire a larger and more flexible permanent workforce under low uncertainty. Thus, the employer can adjust the mix of contingent work arrangements and flexible permanent employees to address demand, technological, and measurement uncertainties. Similarly, the resource-based approach focuses on how organizations gain competitive advantages by managing resources that are rare, valuable, hard to imitate, and uniquely used due to the culture, history, and structure of an organization. Consequently, the use of a hard-to-imitate flexible permanent workforce can be a least-cost strategy for a firm seeking flexibility. Depending on the circumstances, a flexible permanent workforce and contingent workers are substitute methods to create value under conditions of uncertainty. Bringing the two frameworks together generates some additional insights into how managers can gain competitive advantage through adjustments in their labor forces.

Chapter 4, by Lundy, Roberts, and Becker, discusses U.S. labor unions’ responses to the use of contingent work. In an era when union membership has been declining, the potential loss of additional full-time union members due to nonstandard employment arrangements threatens the strength of unions and the job security and economic welfare of their members.<sup>11</sup> Labor unions in the United States, like those in Japan and Europe, generally oppose nonstandard employment. Most unions continue to focus solely on their traditional membership of full-time permanent employees. They have done little to organize contingent workers, or to seek to provide protections in wages, hours, and conditions of work similar to those provided traditionally to organized workers.

Lundy, Roberts, and Becker reviewed the collective bargaining contracts from a variety of private and public sector employers to determine how unions are addressing contingent work as reflected in the contract language. Their analysis indicates that the economic sector in

which the union operates is an important although imperfect predictor of union tactics. Unions in industrial or goods-producing sectors are more likely to use strategies of exclusion to prohibit or limit contingent employment arrangements, such as subcontracting or outsourcing. In contrast, unions in the service sector are more likely to use strategies of inclusion so that these workers are covered by their collective bargaining agreement, such as including part-time employees in the bargaining unit and negotiating prorated benefits for them.

The authors discuss the guidelines provided by the National Labor Relations Board (NLRB), which governs the inclusion in a bargaining unit of temporary, part-time, and leased employees, as well as some less common employee categories, such as students. Also, employers' use of outsourcing, privatization, and independent contractors limits union membership and is resisted by unions. However, when unions are able to organize contingent workers, unions may face tensions over what is negotiated for contingent workers relative to the full-time members who want more family-friendly policies and greater scheduling flexibility, as well as improved economic welfare through better wages, benefits, and conditions of work. In this context unions face challenges when bargaining for seniority, wages, and prorated benefits for contingent workers.<sup>12</sup>

Chapters 5 and 6 review in more detail the public policies that affect contingent workers in the United States. Chapter 5 reviews the legal framework that structures the contingent work arrangements between employers and employees. Chapter 6 reviews public policies affecting workers' economic welfare and the conditions of work that affect individual workers directly, such as unemployment insurance and job safety. Although some of these topics are briefly discussed in earlier chapters, the focus here is a more detailed analysis of the effects of these policies on contingent workers.

In Chapter 5, Coens and Storrs note that much of the literature about employers' advantages in nonstandard employment arrangements creates the impression that these arrangements are options for escaping a variety of legal obligations and liabilities related to employment. The authors discuss in detail why this impression is incorrect and why there is "no safe harbor" from these obligations; employers are responsible for complying with the laws. However, understanding compliance is complicated for employers because there is no single definition of em-

ployee that is used consistently throughout U.S. labor law. In addition, the terminology used to describe the various contingent employment arrangements, such as independent contractor, also varies. Consequently, the same nonstandard employment arrangement can be treated differently under different laws.

The authors focus on the definitions and legal interpretations used by federal agencies to differentiate “employees” from independent contractors, temporary employees, and leased employees. For example, the Internal Revenue Service (IRS) uses the multifactor “common law test” to determine whether a worker is considered an employee or an independent contractor for tax purposes. This test focuses on how much direct control the employer has over the work done by the employee. However, the Wage-Hour Division of the Department of Labor uses the broader multifactor “economic realities” test to determine which workers should be covered as employees by the federal minimum wage law. This test incorporates the control issues of the narrower common law test but focuses on the degree to which the individual depends on the employer for his or her economic livelihood. As a result of the differences in these approaches, the same worker might be classified as an employee for the purposes of minimum wage coverage and as an independent contractor for tax purposes. The chapter discusses the need to change the present fragmented approach to defining employees to provide greater consistency and uniformity, as well as to provide more guidance to help employers understand what they must do to comply with the current complex and often confusing laws.

Wenger in Chapter 6 discusses the relative lack of public policy responses to date in both federal and state public policy to the growth of nonstandard employment. This lack of responses reflects the history of existing labor market policies which were developed to protect full-time employees in standard employment arrangements. Furthermore, there is no true national labor market policy in the United States, but rather a fragmented system in which the states implement federal legislation while the courts interpret it. When workers in nonstandard employment arrangements are covered by public policies, it is unintended since the definitions of eligibility for coverage were designed for full-time employees. Understanding the eligibility rules for coverage thus is critical, since these rules determine who is covered and who is not. The broader the definition of “employee,” the more workers are covered.

The major programs and policies that directly affect contingent workers are reviewed by Wenger: health care and pensions, unemployment insurance, Family and Medical Leave Act (FMLA), minimum wage law, and occupational safety and health. The eligibility requirements for each policy are reviewed. Also, the impact on contingent workers is evaluated based on four standard criteria used for public policy evaluations: economic efficiency, equity, security, and liberty. His analysis and these four criteria guide the identification of appropriate policy reforms. Wenger argues that the ongoing changes on both the supply and demand sides of the labor force require public policy responses to provide benefits, social insurance, and work site protections to nonstandard workers equivalent to those provided to full-time workers. He provides six recommendations for reforms that will help adapt U.S. social welfare protections to provide better protection for nonstandard employees.

### **Perspectives from Japan and Europe**

The same basic forces for change generated by the increasing impact of global economic competition on national economies have affected all of the mature industrialized nations, including those of Japan and Europe. Not surprisingly, the phenomenon of the increase in the use of nonstandard employment also has been experienced in these countries, and has given rise to concerns similar to those discussed for the United States. Like the United States, other nations have struggled with measurement issues and finding the most appropriate way to measure the growth of these varied employment arrangements. However, due to different institutions and cultures, the focus on nonstandard employment has taken some unique twists when compared with the experience in the United States. For example, in Japan the adjustments to expanding nonstandard employment reflect a movement away from a national labor market policy commitment to employment stability embodied in the concept of “lifetime employment” that has dominated the Japanese labor market since World War II.<sup>13</sup> In Europe, the growth of temporary employment agencies reflects a movement away from a historical public policy commitment to institutions that support full employment rather than labor market flexibility. Consequently, both Japan and Europe are working to devise an appropriate infrastructure through deregulation

to encourage a previously prohibited or limited labor market institution—private sector temporary employment agencies.

The discussion of the growth of nonstandard employment in Japan is set in the context of the “bursting of the bubble” of economic prosperity in 1989.<sup>14</sup> As a consequence of the economic changes that resulted, Japanese employers have been moving away from “lifetime employees” or “regular employees” to use alternative employment arrangements.

A by-product of the bursting of the bubble was the Japanese government’s recognition that its labor markets had to become more flexible as the economy was opened to both more domestic and global competition (Porter and Sakakibara 2004). National policy initiatives to support flexibility included the expansion of public employment offices and services as well as training. Temporary employment agencies also were given greater freedom to operate. Prior to 1985 such employment arrangements were prohibited by law in Japan in part as a way to encourage hiring for lifelong employment. However, as the need for greater labor market flexibility was recognized, temporary employment agencies were legalized and the types of jobs they could fill were expanded.

Ozeki and Wakisaka in Chapter 7 provide an overview of the different types of nonregular employment in Japan and the demographic and industrial characteristics of these workers. As a group, nonregular workers represented 33 percent of the labor force in 2005, an increase of more than 5 percent since 1999, and tended to be more heavily concentrated in the service-oriented industries. Like U.S. employers, Japanese firms attribute the use of contingent workers to factors such as labor cost savings and more flexible adjustments to changes in demand. Furthermore, Japanese workers’ explanations for why they are nonregular employees are similar to those of American workers.

The chapter pays particular attention to two groups of nonregular workers: part-time workers, who are the largest group of nonregular workers, and “dispatched workers” sent by temporary employment agencies to client companies. Dispatched workers are the component of the nonregular workforce that is expected to grow the most quickly in the foreseeable future.

There are two categories of part-time workers in Japan: those who work shorter hours (similar to the definition used in the United States)

and those who are not on the lifetime employment career path but may work 35–40 hours a week (fewer hours than “lifetime” employees). The large number of women in part-time employment reflects not only the cultural norms of employment for men and women, but also financial inducements provided by the Japanese government and many companies to encourage women to work less than full time. The chapter also discusses the effects of contingent employment on pay, unemployment insurance, bonus programs, and retirement benefits. Although wages and benefits generally are lower for nonregular employees in Japan, the national health insurance system ensures that everyone has health care.

In Chapter 8 Honda builds on the discussion by Ozeki and Wakisaka by providing more detail about the Japanese government’s employment policies and the labor unions’ responses to the growth of part-time and dispatched workers. He discusses the three major employment policies used for these two groups of workers: the Part-Time Work Law (PWL) and job placement assistance focused on part-time workers, and the Worker Dispatching Law (WDL) developed to protect workers dispatched by temporary employment agencies.<sup>15</sup> The PWL was developed to provide protections for part-time workers by improving job security, providing better management practices where they are employed, and improving the social security system. Unfortunately, since the PWL is not legally binding, it appears to have had little impact; indeed, many employers are only vaguely aware of its existence. As discussed earlier, temporary employment agencies are relatively new in Japan. The WDL was created to permit a legal private sector mechanism to match employers and employees that would supplement the public employment services while regulating these temporary agencies to protect employee welfare.

The chapter also discusses unions’ responses to the growth of nonregular employees. The Japanese union structure is dominated by enterprise unions in relatively large companies—the same companies that have built their human resource management structures around lifetime employment for regular employees. Japanese labor unions have been heavily involved in the development of Japanese government labor policies for part-time and dispatched workers. However, like U.S. unions, they have shown little interest in organizing these workers.

Chapter 9 by Michon provides an overview of nonstandard work in Europe and discusses one institutional response—the growth of tem-

porary help firms (also called temporary work agencies [TWAs]). As the need for more flexible labor markets has become evident, temporary work agencies have emerged as institutions that facilitate flexibility. However, like Japan, a number of European countries previously have prohibited or severely limited temporary employment agencies as part of their national policies to support full employment; the notable exception is France. Consequently, these relatively new labor market institutions still are evolving within each country as well as in the context of the European Union (EU). The EU is working toward common approaches to regulating employment policies and labor markets and institutions such as temporary work agencies to facilitate greater labor market integration.<sup>16</sup>

Michon provides an overview of temporary agency work (TAW) in the member nations of the EU. He discusses the difficulties of comparative analysis across countries because there is no common definition of TAW or common method of regulating TAW through laws and collective bargaining.<sup>17</sup> The heterogeneity of national differences in the regulation of TAW has resulted in differing workforce characteristics. For example, in Germany TAW is primarily used in the industrial sector and employs male manual laborers, while in Denmark it is found primarily in the service sector employing white-collar females.

The chapter provides an overview of the complexities of the various national approaches to regulating TAW and the activities of the “social partners” (employers and unions). While employers have created national TWA employer organizations, unions typically have not created comparable associations due to their hostility to TAW. Michon discusses the ways in which the differences in perspectives on public policy of the employer organizations and unions are being negotiated in some countries, and he reviews the attention being given in varying degrees to protections of TAW workers in the member nations. The chapter concludes with a brief discussion of the challenges of developing within the EU a more standardized approach to regulating temporary agency work.

### **Where Do We Go from Here?**

Chapter 10 discusses the directions for future research. The research challenges created by the available data and theoretical models are re-

viewed, and attention is focused on options to develop public policies that are more customized to address the needs of those workers who are involuntarily contingent employees (Bendapudi, Mangum, and Tansky 2001). In addition, the chapter discusses recommendations for future research provided by the contributors to this volume. These include further analysis of employer decision-making processes, analysis of factors affecting the extension of coverage of employment protections and benefits, comparative research to provide insights into the impact of different models of regulation, and evaluations of the impact of the activities of unions and nonprofit organizations.

## CONCLUSION

One of the most challenging labor market developments in the past three decades has been the increased use in the United States, Japan, and Europe of nonstandard employment arrangements. These employment arrangements are not new; however, their use has raised questions about what workers in these countries can expect for their future career paths. Also, there is increasing recognition that social systems have not changed appropriately to support nonstandard workers who are disadvantaged in the labor market, whether by the provision of training to support lifelong learning, the accommodation of variations in life cycle preferences for work for men and women, or the provision of health care and pensions.

The countries discussed in this volume are struggling to find answers to many questions that will help define the future of work and what a “good job” should provide for workers. Each country is trying to determine how to create a new approach to the social and psychological contracts previously provided by the standard employment relationship.<sup>18</sup> As our understanding of the forces creating the nonstandard workforce has improved, more discussion has focused on the implications of this change as part of a larger conversation about the future of work.

## Notes

1. For a more detailed discussion of the definitions of these various employment arrangements see Polivka, Cohany, and Hipple (2000).
2. Although in 1996 there were about 1.9 million civil servants, Light (1999) estimates that the “shadow of government” was 12.7 million full-time-equivalent jobs due to job creation by federal contracts, and through grants and funds allocated to state and local governments. If the military and postal workers are counted, a total of nearly 17 million people were employed through federal expenditures for this shadow workforce (p. 1).
3. However, it should be noted that this twentieth-century model differs from the historical model of employment in which contingent employment was the norm for most workers (Kelloway, Gallagher, and Barling 2004).
4. For example, 9to5, National Association of Working Women published a report in 1986 noting that almost two-thirds of the part-time workforce in 1985 was female, and over 62 percent of the temporary help industry jobs in 1984 were filled by women. Furthermore, the report documented the poor wages and conditions of employment of these workers (DuRivage 1996).
5. Counting contingent workers is not an easy task, even in mature countries with well-established procedures for collecting accurate labor market data, as discussed in Chapter 2. Unfortunately, the evolving data collection systems in rapidly developing countries such as China generate unreliable or incomplete labor market measures. This makes it impossible to evaluate nonstandard employment in a meaningful way. See Banister (2005) for a discussion of the problems.
6. To determine the employment status of workers, BLS survey respondents are asked a series of questions to determine the absence of either an implicit or explicit commitment by an employer for long-term employment. The key factor used to make this determination is whether the job is temporary or not expected to continue (Hipple 2001).
7. Polivka (1996, p. 56) states “. . . not all workers in alternative work arrangements are contingent, and conversely, not all contingent workers are in alternative arrangements. Therefore, by and large, contingent workers and workers in alternative arrangements are analyzed separately.”
8. Belous (1989) illustrates the challenge this creates for employers, as well as data collection, by quoting senior executives in two companies. The “. . . senior human resource executive admitted, ‘I don’t call it a contingent workforce; I call it a phantom workforce. In many cases, we just don’t know what we are doing. We don’t know the size of this phantom workforce, but we think it is very large. We don’t know our liability in terms of benefits to this phantom workforce. We don’t know how to control it or who in the company should control it’ ” (p. 58). A second executive states: “We call it the hidden workforce, and our hidden workforce is out of control . . . We are trying to get a handle on it” (p. 60).
9. In addition, some authors discuss wage flexibility, that is, changing wages to reflect the external labor market supply and demand conditions as well as pay flex-

ibility internally. For a more detailed discussion of flexibility see Reilly (2001) and Ozaki (1999).

10. The standard two-party employment relationship provides a direct relationship between the employer (the firm hiring and paying the employee) and the employee (the worker performing the services for the employer). This contrasts with the temporary employment agency, which creates a triangular employment relationship: the agency with the client (customer) company, the agency with the worker, and the client company with the worker. The temporary employment agency has a contract with the client company to which temporary workers are sent. The agency handles the activities that would otherwise be undertaken by the human resource department of the client firm, such as recruiting workers, conducting reference checks, evaluating qualifications, and perhaps providing training, and places the workers with employers. In addition, the agency generally is held responsible for paying various taxes such as payroll and Social Security taxes, protecting the safety and health of their workers, and ensuring equal employment opportunity laws are followed. Thus, the agency generally is considered the legal employer (see Chapter 5 for legal uncertainties arising from these “coemployment” situations), and is paid an hourly fee by the client which covers the wage of the employee plus the firm’s markup for its services. The temporary agency also has an employment contract with the temporary employee and pays the employee. Some agencies provide benefits in addition to pay. Finally, the temporary employee provides services to and receives direction from the client company (Gonos 1997).

Temporary employment agencies are distinguished from leasing companies which take over from a client company the payroll of an existing workforce and handle hiring and firing. Leasing companies also are more likely to provide benefits. Typically work assignments are for longer term than those of temporary workers. The leasing company is the legal employer in these situations. The number of leasing companies also has grown rapidly (Carey and Hazelbaker 1986; Lewis and Molloy 1991; Segal and Sullivan 1997).

11. However, some full-time workers also would be willing to accept a lower wage under certain conditions. A survey by Friedman and Casner-Lotto (2003) found that about one-quarter of unionized workers would reduce their scheduled work time if they could cut back without experiencing severe reductions in income, benefits, and job security. For example, they would find it acceptable to work 90 percent of a full-time work schedule and get paid 90 percent of their current wages and benefits.
12. In 2003, 14.2 percent of employed full-time workers in the United States were members of unions, while 6.8 percent of employed part-time workers were members (Bureau of Labor Statistics 2004).
13. Gao (2001) states that Japan privatized social protections by basing its strategy for total employment on
  - . . . three pillars. First, big corporations institutionalized a permanent employment system, providing job security to their employees; second, medium-size and small companies, with support from

the state, organized numerous cartels to avoid bankruptcy and keep everyone in business; and third, family-owned mini shops were protected by heavy government regulations. All these measures served to reduce pressure on public spending for unemployment assistance. (p. 114)

This system created stability and protected inefficient companies. When unemployment grew, the Japanese government used public works projects to create a safety net.

For those employees hired by the big corporations that could provide lifetime employment, the benefits were significant. Employees knew that although their salaries started low they would rise steeply with the accumulation of training and experience, and they would be rewarded with seniority-based promotions within the company. These expectations typically tied employees to one employer for their entire careers. However, lifetime employment has been primarily enjoyed by male workers. The buffer in the Japanese employment system has been female employment heavily concentrated in part-time work. The female labor force participation remains low in Japan relative to the United States and most industrialized nations, but is expected to increase as more women achieve higher levels of education and delay marriage. For further discussion of this employment system see Durand and Durand-Sebag (1996) and Hart and Kawasaki (1999).

14. From 1985 to 1990 Japan recorded rapid economic growth averaging an increase in the real gross domestic product of 4.6 percent a year, as well as a tripling of the value of the Nikkei Stock index and rapidly increasing land prices. By 1991 it had become apparent that this “bubble economy” had grown due to gains from speculation on inflated stock and land prices. When this bubble burst, economic growth flattened and asset values fell; Japan went into the worst recession it had experienced since the 1940s. The Japanese government began in 1992 to develop macroeconomics policies to support a recovery. At this time it also began to address the major mismatches between Japanese institutions, which had been designed for a different set of economic forces, and the current global economy (Grimes 2001). Alexander (2002) argues that the relative stagnation and decline of the Japanese economy since the early 1990s is the result of the inability of both the Japanese government and businesses to replace the previously successful ways of doing things that generated the economic miracle of post World War II, and to emphasize employment stability with new approaches appropriate for the flexibility needed for the current economic environment.
15. Organizations that provide job placement assistance are referred to as “labor market intermediaries” because they facilitate matching workers seeking jobs (recruitment) with employers (placement). The national system of public employment services offices created in Japan provides free services, whereas private organizations may charge fees. Firms that provide placement are different from temporary employment agencies because their job is completed once a worker is placed in a job; these firms do not act as the employer and do not assume related responsibilities such as providing some fringe benefits.

16. See Vosko (1998) for the historical background to these multiple national approaches from the founding of the International Labor Organization in 1919 through the present.
17. Andresen (1992) identifies five particularly salient additional factors that result in differences between European nations that are substantially larger than regional differences in the United States and further complicate cross-national comparisons. These include language, social bonds to a local region which reduce labor mobility, educational systems, different experiences with migration, and distinct social security systems with different standards for benefits.
18. For an example of this type of discussion see Jouen and Caremier (2000). For a discussion of the “new” psychological contract for employment, see Stone (2004).

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