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Employment Research

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Research Questions
for the New Millennium

Institute Research and
Public Policy on Disability

The Policy Implications of
Nonstandard Work Arrangements

1999 Dissertation
Award Winners

Forthcoming Books

Vol. 6, No. 2

Employment Research is published twice a year by the W.E. Upjohn Institute for Employment Research, a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Research Questions for the New Millennium

In the next three issues of *Employment Research*, senior staff at the Institute will offer their views on what we as a profession know—and what we don't know—about critical employment-related issues. The authors will also present fundamental questions that research should address in the next several years in order to help inform future policy decisions and to improve the delivery of employment services.

Finding practical solutions to employment-related issues is the mission of the Upjohn Institute. We believe that sound research is essential for the formulation of wise policy and the administration of successful programs. Not only must the proper questions be posed and addressed, but the research findings must also be made relevant to policymakers and program administrators. During the Institute's 55 years of operation, we have sought to bring research and operations together. We practice this dual role on a daily basis. We conduct research in variety of areas, and as a Service Delivery Area, we administer all the state and federal labor market programs for our part of Michigan.

We also bring together researchers and practitioners to discuss and explore how research can better inform employment policy and improve the delivery of services. As an example of this collaboration, in 1971, Congress presented a bipartisan proposal to the

Upjohn Institute suggesting that the Institute bring together a diverse group of "academic and other experts, and Congressmen and their staff, for informed and informal discussions of the role of public service employment in manpower policy." The proposal grew out of Congress's mounting frustration over their inability to pass the Employment and Manpower Act of 1970. The two houses could not agree on specific aspects of employment policy; thus, they proposed that "it would be of great assistance if the Upjohn Institute could conduct a series of seminars . . . exploring the issues involved in unemployment and public service jobs." A conference was held, a book was published, and Congress eventually passed an employment bill.

Among the recent forums of this type was a conference held last April and co-sponsored with the U.S. Department of Labor. We brought researchers and state and federal administrators together to explore innovative ways to deliver workforce services more quickly and more effectively through statistical targeting. Highlights of the conference were included in the last issue of this newsletter.

We hope that our perspectives offered in these articles will help define the research questions that can better inform policy and improve employment programs as we embark on the new millennium.

H. Allan Hunt

Institute Research and Public Policy on Disability

The past 30 years have been a period of fundamental change in public policies that relate to disability, from the Occupational Safety and Health Act (OSHA) of 1970, through hundreds of state workers' compensation enactments of the 1980s and 1990s and the Americans with Disabilities Act (ADA) of 1990, to the Workforce Investment Act (WIA) of 1998. The Upjohn Institute has maintained an active research interest in disability issues through most of this period. This article briefly reviews Institute contributions and outlines some research opportunities.

The state workers' compensation systems were the first social insurance schemes in the United States, dating to the early years of the twentieth century. Workers' compensation has also been an important focus of the Institute's research efforts, first in Michigan (Hunt and Eccleston 1990) and other U.S. states (Berkowitz and Burton 1987; Falaris, Link, and Staten 1995), then spreading to international venues in Canada (Hunt, Barth, and Leahy 1991, 1996) and Australia (Hunt and Klein 1996; Hunt et al. 1997, 1998). These studies were primarily descriptive, seeking to provide information about these very complex social systems to assist policymakers in improving system performance.

Workers' compensation systems have evolved through time, with many common trends and elements. During the 1970s, benefits were generally increased and access was widened (Chelius 1986), leading to a significant increase in program costs for employers. Beginning

in the later 1980s and persisting through the 1990s, economic development perspectives tipped policy changes toward cutbacks and restrictions. A full account of benefit and cost fluctuations over the past 25 years will be captured in a forthcoming Institute monograph by Thomason, Burton, and Schmidle.

The passage of OSHA in 1970 brought the federal government into the direct regulation of workplace safety and health conditions thought to affect the likelihood of accidents and disease and hence disabilities. This fundamental shift in policy brought the focus squarely on the role of the employer. The Institute reflected this focus with studies that sought to document the influence of employer policies and practices on the incidence of work-related disability (Hunt et al. 1994). The detailed database developed at the Institute from a random sample of 220 Michigan employers was also used to help OSHA develop a justification for using employer disability outcomes to target enforcement efforts (Hunt 1993). Continuing this line of inquiry, a group at the University of Minnesota currently has an Institute grant to study "Human Resource Management Policy, Safety Practices, and Workers' Compensation Costs."

With the passage of the ADA in 1990, public policy on disability entered a new era, generally characterized as an era of "empowerment and civil rights." While still concentrating on the responsibilities of the employer, in this instance to accommodate disabilities, the ADA fundamentally changed the thrust of

public policy toward employment of persons with disabilities. The ADA begins with the assumption that persons with disabilities can work and participate fully in other aspects of social and economic life. An Institute grant supports a study currently underway at Georgia State University to measure the labor market impacts of the ADA.

Two recent Institute publications have examined the relationship between disability and employment for the general population. "Disability, Work and Cash Benefits" by Mashaw et al. (1996) came out of a research conference organized by the National Academy of Social Insurance, Disability Policy Panel. Commissioned papers examined the causes of work disability and the types of interventions that might enable persons with disabilities to remain at work, return to work, or enter the workforce. "Growth in Disability Benefits: Explanations and Policy Implications," edited by Rupp and Stapleton (1998), examined the troubling growth in Social Security disability programs (DI and SSI) in the early 1990s. It included perspectives of researchers and practitioners on the causes and consequences of rapid program expansion.

The Institute continues these interests in collaborating with the National Academy of Social Insurance on two other projects. The Institute has provided seed money to the Academy to support its project on "Risks in the Second Half of the Work Life: Ensuring Health and Income Security." This three-year project will examine the risks of ill health, disability, loss of employment, or premature retirement that all workers face today and the policy solutions (public and private) that might alleviate those risks. Allan Hunt also participates in NASI's Workers' Compensation Steering Committee, which is conducting a broad review of policy issues in these state-based programs. He is currently leading an effort to review the adequacy of cash benefits in workers' compensation programs.

In a major new project, the Institute has taken on the analysis of a national

survey of the disability status of the population. The Social Security Administration is funding this research effort, and the Upjohn Institute is working as a subcontractor to Westat, Inc., which is designing and conducting the survey. The study seeks to determine how many persons are potentially eligible for disability benefits, both now and in the near future, and what it is that enables some persons with disabilities to maintain employment while others are not able to do so. In addition, the project calls for an assessment of the impact of the ongoing disability determination process redesign at SSA. This project will be completed in 2002.

In one sense, the public policy emphasis on employment for persons with disabilities has been more fully expressed with the enactment of the Workforce Investment Act of 1998. Title IV of WIA actually incorporates the Rehabilitation Act (which authorizes the federal-state rehabilitation system for disabled persons) into the workforce development system for the general population. Thus, as we await the implementation of WIA in June 2000, the implicit goal of public policy is to fully integrate persons with disabilities into the labor market. Unfortunately, the actual results seem to be lagging behind the legislative rhetoric. Advocates for persons with disabilities have been keenly disappointed with employment gains since full implementation of the ADA in 1992 (Kaye 1998). However, with current tight labor markets and policy support for employment of persons with disabilities, it is a time of great expectations.

Among the research issues that remain to be addressed are the following.

1. Who works and why? We need much better understanding of the factors that determine success in employment for persons with disabilities. Are there particular kinds of barriers to employment that might be resolved through public policy initiatives? Are additional supports or incentives needed to motivate private parties? How can vulnerable people with

disabilities be protected against the normal vagaries of the labor market?

2. Program design problems.

Despite incremental reforms to encourage employment, it is still true that our income maintenance and other support programs for persons with disabilities were designed for protection rather than to foster employment. How could existing disability compensation programs provide clearer incentives and more adequate support for disabled persons who want to work? It is clear that the combination of program rules and requirements, labor market realities, and individual circumstances make work an unrealistic choice for too many persons with disabilities. Are there ways to minimize the disincentives and maximize the incentives for work while maintaining adequate protection for those who cannot work and for persons whose conditions grow worse over time?

3. What is the proper role for employers in disability policy? How can regulatory approaches (like OSHA, ADA) and incentive approaches (like experience-rated workers' compensation programs, employer tax credits) be more constructively combined? Should employers receive public subsidies to "do the right thing"? Are we producing the correct amount of "safety and health" versus "disability" in our workplaces?

4. Can the efficiency of workers' compensation programs be improved? What proportion of the employer's cost ultimately finds its way to the beneficiaries of the program? Has the rise of alternative dispute resolution procedures and deregulation of insurance rate-making made a difference? What is the current status of the "historical compromise" between labor and business?

The Upjohn Institute looks forward to helping understand these problems and find solutions in the years ahead.

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1999 Dissertation Award Winners

For the fifth year, the W.E. Upjohn Institute has awarded a prize for the best Ph.D. dissertation on an employment-related topic. The winner of the 1999 Dissertation Award is Robert T. Greenbaum, of Carnegie Mellon University, for "An Evaluation of State Enterprise Zone Policies: Measuring the Impact on Business Decisions and Housing Market Outcomes." Greenbaum's dissertation advisor was John Engberg. Two honorable mentions were chosen: David H. Autor of Harvard University for "Essays on the Changing Labor Market: Computerization, Inequality, and the Development of the Contingent Work Force," and Dan T. Rosenbaum of Northwestern University for "Three Essays on Labor Market Institutions and Low Income Populations." Autor's dissertation advisor was Lawrence Katz, and Rosenbaum's dissertation advisor was Bruce Meyer.

Greenbaum's dissertation examines the impact of state urban enterprise zones on business and housing market outcomes at the ZIP code level in California, Florida, New Jersey, New York, Pennsylvania, and Virginia. He finds that, on average, zones have little impact on business or housing market outcomes and that new businesses create significantly more jobs in zones, but that shrinking business establishments offset this growth.

Autor's dissertation explores three prominent U.S. labor market developments of the 1980s and 90s: the rapid advent of workplace computerization, the historic rise in earnings inequality, and the unprecedented growth of temporary-help employment. With respect to the last development, he attributes erosion in the common law doctrine of employment at will to the recent increase in temporary-help employment. Rosenbaum investigates the relationship between labor market institutions and low-income populations. He first examines how changes in the compositions of educational groups have affected changes in the return to schooling; then he analyzes the dramatic changes in the tax and welfare systems between 1984 and 1996, particularly the EITC; and finally he examines the extent to which UI insures disadvantaged workers against unforeseen events or subsidizes firms and workers engaged in temporary layoffs.

The winner of the Dissertation Award receives a cash prize of \$2,000; each honorable mention receives a \$500 prize.

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Skill-Biased Technological Change Evidence from a Firm-Level Survey

Donald S. Siegel

New technologies seem to favor more-skilled, better-educated workers who are capable of embracing technological change in their jobs.

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Economic Conditions and Welfare Reform

Sheldon H. Danziger

Editor

The contributors to this volume focus on three key questions concerning the initial effects of the 1996 welfare reform act: Why are caseloads falling? How are recipients faring? And how are the states responding?

Much of the success to date is due to the booming economy and to a fiscal environment in which states have substantial funds to spend to move recipients into the labor force. Given current regulations, much of the success achieved to date may disappear when a recession occurs.

Read the first chapter of this book on our Web site

Legal U.S. Immigration

Influences on Gender, Age, and Skill Composition

Michael J. Greenwood

John M. McDowell

Greenwood and McDowell examine the influence of source country characteristics and U.S. immigration policy on the gender, age, and skill composition of immigrants coming to

America. The authors' include in their models the social programs available in source countries (such as old-age pensions, healthcare, and unemployment insurance) and how these programs influence the characteristics of migrants to the U.S.A.

Susan N. Houseman

The Policy Implications of Nonstandard Work Arrangements

A substantial share of the workforce is in various types of temporary, contract, and part-time work arrangements, and evidence suggests that the share in at least some of these arrangements is growing. This growth has raised concern because jobs in so-called "nonstandard" arrangements often provide lower wages, fewer benefits, and less stability than comparable standard full-time jobs. In this article, I begin by briefly reviewing evidence on the number of workers in nonstandard staffing arrangements and trends in these arrangements. I then focus on some of the policy issues raised by these arrangements and trends.

The Number of Workers in Nonstandard Arrangements

Recent supplements to the February Current Population Survey (CPS) provide the first count of the number of workers in a wide variety of nonstandard staffing arrangements. Table 1 presents the distribution of the workforce by staffing arrangement in 1997.

To avoid double counting, the categories of employment in Table 1 were constructed to be mutually exclusive. However, some overlap among categories occurs particularly with direct-hire temporaries; a number of on-call workers and contract company workers are hired on a short-term basis. Taking these workers together, 3.2 percent of the workers are direct-hire temporaries.

Independent contractors form the largest category of nonstandard workers.

Collectively, agency temporaries, on-call workers, independent contractors, contract company workers, and direct-hire temporaries make up 12.5 percent of the workforce.¹ Another 13.6 percent are regular part-time employees.

Trends in Nonstandard Work Arrangements

Information on trends in nonstandard arrangements is sparse. According to data from Current Employment Statistics (CES), employment in the help supply services industry, which is composed primarily of temporary help agency workers, grew dramatically in the 1980s and 1990s. From 1982 to 1998, the share of nonfarm payroll employment in help supply services increased from 0.5 percent to 2.3 percent. The overall share of the workforce in part-time jobs increased only slightly in the 1980s and has been stagnant in the 1990s.

Although time-series data on employment in other nonstandard work arrangements do not exist, indirect evidence suggests that the share in these arrangements is growing. Some researchers have cited the rapid growth in business services as evidence, on the grounds that many contract company workers are classified in this sector. Moreover, several employer surveys provide qualitative evidence that other types of nonstandard work arrangements have grown significantly in recent years (Abraham 1990; The Conference Board 1995; Abraham and Taylor 1996; Houseman 1997).

Policy Issues

Recent studies, many of which are based on the Contingent and Alternative Work Arrangement Supplements to the CPS, have provided much new evidence on the implications of these staffing arrangements for workers. At the same time, new employer surveys have provided information on why businesses use—and have been increasing their use of—nonstandard work arrangements. Together, this information helps clarify important policy issues.²

Job security

The popular impression that workers in nonstandard arrangements have less job security is largely supported by recent evidence. Although independent contractors do not have less job security, on average, than regular full-time workers, those who are agency temporaries, on-call workers, direct-hire temporaries, contract company workers, and regular part-time employees are more likely to switch employers, become unemployed, or involuntarily drop out of the labor force.

These findings are consistent with evidence from employer surveys showing that firms traditionally have used all types of nonstandard work arrangements to accommodate fluctuations in their workload or to fill in for absences or vacancies in their regular staff. Some evidence also suggests that firms are increasing their use of temporary help and other nonstandard arrangements in order to increase their workforce flexibility. Arguably, firms have come under greater competitive pressure to reduce labor costs and, in response, increasingly have adopted a "just-in-time" workforce staffing strategy. Instead of overstaffing to accommodate employee absences or fluctuations in product demand, firms use various nonstandard arrangements to meet changes in their day-to-day staffing needs.

The low attachment between workers and firms implicit in many of these arrangements presents several problems for workers. For instance, many such workers are ineligible to receive

Table 1 Distribution of Employment by Work Arrangement, 1997

Arrangement	Definition	As percentage of workforce
Agency temporaries	Paid by a temporary-help agency	1.0
On-call or day laborers	Indicated they work as an on-call or day laborer	1.6
Independent contractors	Identified themselves as an independent contractor, independent consultant, or freelancer	6.7
Contract company workers	Work for company that contracts out their services, work at the client's site, and primarily work for one client	0.6
Other direct-hire temporaries	Job is temporary or they cannot stay as long as they wish for economic reasons and are not classified in any of above categories	2.6
Other self-employed	Self-employed workers who are not independent contractors	5.1
Regular part-time employees	Work fewer than 35 hours per week and are not in another nonstandard work arrangement	13.6
Regular full-time employees	Work 35 or more hours per week and are not in a nonstandard work arrangement	68.8

Source: Author's tabulations from the February 1997 CPS Supplement on Contingent and Alternative Work Arrangements.

unemployment insurance because they do not meet the minimum hours or earnings threshold with a particular employer within a base period. Some have proposed that states relax the eligibility requirements to make unemployment insurance more accessible to those in temporary assignments or with low hours.

Similarly, under current federal pension regulations, workers who frequently change jobs have difficulty qualifying for employer retirement plans. There is widespread support in Congress and the administration for increasing pension portability, which would likely help many in nonstandard work arrangements.

A related concern is that without strong attachments to employers, workers in nonstandard arrangements will not receive the training they need to keep abreast of technological developments and to secure good jobs in the future. There has been little research on this issue; we need to identify any such shortfalls in training and also private and public strategies for addressing the problem.

Benefits

A lack of benefits is a problem for workers in all nonstandard arrangements. These workers are much less likely than regular full-time workers to have health insurance or a retirement plan through their employer—or from any other source—even after controlling for worker and job characteristics.

In fact, evidence from employer surveys suggests that savings on benefit costs is often one reason employers use nonstandard work arrangements. Although no law requires employers to offer workers benefits like health insurance and retirement plans, if employers choose to offer these benefits, the Employee Retirement Income Security Act of 1974 (ERISA) and nondiscrimination clauses in the IRS tax code require that employers provide these benefits to a broad group of its workers. However, employers may circumvent benefits regulations by hiring on-call, temporary, or low-hour part-time workers, who often are not covered under the laws. In addition, restrictions on benefit plans do not apply to independent contractors, who are self-employed, or to agency

temporaries and contract company workers, who are deemed another company's employees.

These benefits issues are receiving considerable attention in Congress and are currently being studied by a task force within the Department of Labor. Several types of policy strategies to increase benefits among workers in nonstandard arrangements have been discussed. One is to expand current benefits regulations to cover more workers in temporary and part-time positions. Legislation proposed in Massachusetts would go so far as to bar employers from discriminating on the basis of employment arrangements when determining wages and benefits. Any adverse effects on employment from such expanded regulation would need to be studied.

A second approach is to provide employers with positive incentives to offer benefits to workers in nonstandard arrangements or to eliminate existing barriers to their coverage. Current legislation before Congress that would increase pension portability is an example of such a policy.

A third approach is to increase enforcement of existing laws governing benefits. Allegedly, many employers misclassify workers into nonstandard arrangements to avoid providing these workers benefits or to evade other labor standards and employment taxes. The problem of misclassifying employees as independent contractors is particularly serious, although the IRS has tried to crack down on this practice in recent years. Increasing the penalties to employers and remedies to employees for such misclassification would also encourage employers to comply with the laws.

Labor standards

Like laws regulating benefits, other employment, labor, and related tax laws often set hours or earnings thresholds that exclude many part-time, on-call, and temporary workers from coverage. Such thresholds are usually defended on the grounds that the excluded workers demonstrate insufficient attachment to the workforce or that without such exclusions

the laws would impose undue costs on businesses. However, the widespread and growing use of workers in nonstandard arrangements raises questions about whether current thresholds are too high and whether protection of these workers is adequate.

Moreover, coverage of workers in nonstandard arrangements is simply unclear in many instances. For example, because independent contractors are not employees, they are not covered by any employment or labor laws. However, whether an individual may be legally classified as an independent contractor is often unclear, resulting in many disputes over status that are resolved on a case-by-case basis by the courts. Adding to the confusion, the criteria used to classify individuals as independent contractors may vary from statute to statute; an individual may be an independent contractor under certain statutes but an employee under others.

Similar issues arise when firms use workers from staffing agencies. Although these workers are usually regarded as employees of the staffing company, in some cases the client company may be considered a "joint employer" and thus have obligations to workers under certain laws.

Concern that some employers use independent contractors or staffing firms to avoid benefits and other labor standards has prompted Congress, the IRS, and some states to clarify laws and curb such abuse in a few circumstances. However, many issues related to who is an employee and who is the employer—which get to the core question of which workers are covered by these laws and which employers are liable for their coverage—remain unresolved and are still being decided by the courts.

In its 1996 report, the Commission on the Future of Worker-Management Relations recommended simplifying and standardizing the definition of "employee" and "employer" in employment, labor, and tax law to reduce confusion and to eliminate perverse incentives that encourage employers to use nonstandard work arrangements to

circumvent the laws. Congress and the administration have yet to act on this recommendation.

Should Government Promote Temporary-Help Employment?

Although nonstandard work arrangements are often associated with low wages, few benefits, or little job security, it would be misleading to suggest that these arrangements are always, or even usually, bad for workers. Many in such arrangements, including the overwhelming majority of part-time workers and independent contractors, prefer their arrangement. And while agency temporaries express the least satisfaction with their work arrangement (over two-thirds would prefer a regular job, according to CPS data), employer survey data show that companies often use temporary-help agencies to screen workers for permanent positions. To the extent that this practice results in better job matches, both workers and firms stand to benefit.

Under the presumption that temporary-help agencies may be useful vehicles by which workers can gain job experience and secure permanent employment, some states have begun using temporary-help agencies to place unemployment-insurance and welfare recipients in jobs. Whether using temporary-help agencies to place disadvantaged workers in jobs is desirable depends on whether these workers are more likely to find good, stable jobs by using temporary-help agencies than they are by using alternative services. The research needed to answer this question—which ideally would involve conducting a random-assignment controlled experiment—has not been done.

Conclusion

Temporary, part-time, and contract employment arrangements offer many advantages to firms and workers. However, perhaps because most employment and labor laws were written many years ago, most were designed with the interests of regular full-time workers in mind. Policymakers need to assess whether these laws—including

unemployment insurance laws, ERISA, the National Labor Relations Act, and workers' compensation laws—adequately protect the large and growing number in nonstandard work arrangements.

¹ The number of workers counted as agency temporaries in the CPS is about half that in the BLS's establishment survey, and it is generally presumed that temporary-help employment is undercounted, at least somewhat, in the CPS. There are no alternative estimates of employment in the other nonstandard work arrangements against which the CPS numbers can be compared.

² I provide an extensive discussion of and citations to this literature in Houseman (1999).

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