

CONTINGENT WORKERS IN CALIFORNIA

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There is a perception that the nature of the employment relationship in the United States is fundamentally changing, resulting in less attachment between workers and firms, an increase in contingent employment, and a decline in job security. The term “contingent employment” has been used in a variety of contexts to describe employment arrangements that are temporary in nature. In this chapter, we use a definition of contingent employment that has been established by the Bureau of Labor Statistics (BLS) in its Current Population Survey (CPS). The Bureau defines contingent employment as “any job in which an individual does not have an explicit or implicit contract for long-term employment.” The criterion used by the BLS to determine whether a position is categorized as contingent, focuses on identifying jobs that are explicitly structured to be of limited duration, or are perceived by the employee as unlikely to continue despite their performance or the state of the economy.

The Bureau of Labor Statistics first measured “the contingent workforce” in 1995, an effort that required a new supplementary set of questions to the Current Population Survey (see Nardone, Veum, and Yates, 1997). The first attempt identified six million contingent workers, or 4.9 percent of the total U.S. labor force, and the estimated fractions fell to 4.4 and 4.3 when the same supplementary survey was collected in 1997 and 1999.

This article focuses on measuring the extent and characteristics of contingent employment in the State of California, highlighting the fact that unlike the U.S., the share of contingent employment in California increased from 1995 to 1999. Because contingent employment arrangements are becoming more prevalent in California, it is important to understand the characteristics of these jobs and the workers who hold them. Our study shows that, as in the nation, contingent employment in California is more prevalent among young workers, but is extremely heterogeneous in other demographic dimensions. It includes workers with very high and very low levels of schooling, and men and women of all races. Contingent employment in California is particularly important in services, agriculture and construction, and among highly specialized workers (technicians, farm workers, and professionals). Our study also reports the extent to which California’s contingent workers prefer their type of employment to the more secure alternative, and we report the extent to which CA contingent workers have health insurance, and if that insurance is paid for by their employer or comes from an alternative source.

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A better understanding of the extent and characteristics of contingent employment in the California is important for several reasons. First, without a careful characterization of contingent workers, their alternatives and preferences, policy makers would be unable to assess these workers situation. Second, a closer look at the data may help us find out if the growing rate of contingent employment in the state is a long-term trend or a cyclical phenomenon. This question is linked to several policy issues. For example, our data suggest that contingent workers are significantly less likely to have health insurance coverage than workers with traditional jobs. Thus, the growing fraction of contingent workers may exacerbate the crisis in emergency health care in California, since many uninsured people use hospital emergency rooms when health problems arise.

Also, recent lawsuits (for example, Vizcaino vs. Microsoft) have emerged concerning the growing use of temporary workers in technology companies. With California's trend toward increasing contingency rates, and its high concentration of high-tech industries, we may see more of these lawsuits in the future, and the resolution of these lawsuits may lead to changes in California's labor laws. Finally, it is possible that the rising contingency rate in California will have implications for the stability of employment in the state over the business cycle. Contingent workers may be less costly for firms to hire in an economic expansion, and they are certainly easier to let go during a period of economic decline. This characteristic would imply that an increase in the state's contingency rate may lead to increased volatility in employment over the business cycle.

The Changing California Economy

The State of California, which represents about 12 percent of national employment, has seen a significant transformation of its economy over the last decade. Over a brief period, the state has evolved from a heavily defense-oriented, manufacturing-based economy to a service-oriented economy. During the period 1990-1999, the state lost over 150,000 jobs in the durable goods manufacturing sector. However, over the same period the state gained over a million jobs in the service sector. Almost half of these jobs were gained in the "business services" sector, which includes many different industries that provide services to businesses including software development, advertising agencies, equipment rental and leasing, security services, quick-copy centers, and temporary help agencies. By 1999, the service sector represented 31% of the state's employment about 1 percentage point above the national share in that year.¹ In addition, developments in information technology have been significant in California, as it is home to the nation's most important cluster of information technology industries, Silicon Valley.

It is not surprising that we have also seen some significant changes in the organization of work and the types of work arrangements within the state's economy. In the second half of the 1990s, the period for which we have appropriate data to examine these trends, workers were hired on a "contingent" basis at increasing rates. We begin to examine this issue by describing our source of data on California contingent workers and the definitions associated with that data source.

Data Source

We use the Census Bureau's Current Population Survey (CPS) and the CPS Supplement on Contingent and Alternative Employment to examine trends in contingent work arrangements in the State of California. The CPS is a monthly survey of about 50,000 US households, which is administered by the Bureau of Labor Statistics. In constructing the sample for the CPS survey, government statisticians use scientific methods to ensure that the sample accurately represents the civilian non-institutional population. This survey provides the information that the US government uses to measure the unemployment rate and other official labor force statistics for the US economy. Government statistics on

¹ Using establishment data, to allow a comparison with the national figures cited earlier.

state and regional economies, (for example, the California unemployment rate) are also produced from this source of information.

The CPS collects data from all household members 16 and older regarding their employment status, earnings, hours of work, and other variables. For each individual in the sample, personal characteristics such as age, sex, race, marital status, and educational attainment are documented. Employed individuals are also classified according to their occupation and industry of employment.

Definitions of Contingent Employment

The definition of contingent employment is a non-trivial matter in the United States, where “employment at will” has been a tradition, where there are no clear restrictions on the use of short-term contracts, and where employers are not required by law to pay severance in case of dismissal. Under the “employment-at-will” doctrine, an employer can dismiss workers for a just reason, an economic reason, or no reason at all, as long as the dismissal does not violate the Civil Rights Act of 1964 or the National Labor Relations Act.

In Europe and in most developing countries, job protection legislation leads to explicit distinctions between short term and long-term contracts. In fact, unless explicitly established, employment contracts are presumed to be long-term and are subject to severance payments in case of dismissal. As a result, short-term contracts in Europe and in most countries are explicitly set up as short term. In the United States, there are no explicit distinctions between short term and long-term contracts in terms of severance payments, or other characteristics. The U.S. has no mandated federal policy regarding severance payments; employers that pay severance do so either in response to collective bargaining agreements, individual contracts, or market incentives. To measure contingent employment in United States, it is necessary to rely on the worker’s perception of the likelihood that the contract will or not be continued. In the CPS survey, a special set of survey questions has been recently designed to measure its extent.

Several pieces of information are collected in the CPS supplement from which the existence of a contingent employment arrangement may be discerned: (1) whether the job is temporary or not expected to continue, (2) how long the worker expects to be able to hold the job, and (3) how long the worker has held the job. For workers who have a job with an intermediary, such as a temporary help agency or a contract company, information is collected about their employment at the place they are assigned to work by the intermediary as well as their employment with the intermediary itself. The key factor used to determine if a job fits the conceptual definition of contingent work is whether the job was *temporary or not expected to continue*. The first questions asked in the supplement are as follows:

1. Some people are in temporary jobs that last only for a limited time or until the completion of a project. Is your job temporary?
2. Provided the economy does not change and your job performance is adequate, can you continue to work for your current employer as long as you wish?

Respondents who answer “yes” to the first question or “no” to the second are then asked a series of questions to distinguish persons who are in temporary jobs from those who, for personal reasons, are temporarily holding jobs that offer the opportunity of ongoing employment. For example, students holding part-time jobs while in school might view those jobs as temporary, because they may intend to leave them at the end of the school year. These are not considered contingent jobs. Jobs are defined as being short term or temporary if the employee is working only until the completion of a specific project, temporarily replacing another worker, being hired for a fixed period, or filling a seasonal job available

only during certain times of the year, or if other business conditions dictated that the job was short term. Individuals who expect to work at their current job for one year or less for personal reasons, such as returning to school, retiring, or obtaining another job, are asked if they could continue working at that job were it not for that personal reason. If they could not do so, they would be classified as contingent, if the other conditions of the definition were met.

To further ascertain whether a job was temporary, workers are also asked how long they expect to stay in their current job and how long they have been with their current employer. Being able to hold a job for one year or more can be taken as evidence of at least an implicit contract for ongoing employment. In other words, the employer's need for the worker's services is not likely to evaporate anytime soon. For the same reason, the information on how long a worker has been with the employer could show whether a job is ongoing. If a worker has remained with an employer for more than one year, there is some evidence that, at least in the past, the individual had an explicit or implicit contract for continuing employment. The Bureau of Labor Statistics offers three measures of contingent employment.

Estimate 1. The narrowest definition, estimate 1, defines contingent workers as wage and salary workers who indicate that they expect to work in their current job for 1 year or less and who have worked for their current employer for 1 year or less. Self-employed workers, both incorporated and unincorporated, and independent contractors are excluded from the count of contingent workers under estimate 1; the rationale is that people who work for themselves, by definition, have ongoing employment arrangements, although they may face financial risks. Individuals who work for temporary help agencies or contract companies are considered contingent under estimate 1 only if they expect their employment arrangement with the temporary help or contract company to last for 1 year or less, and they have worked for that company for 1 year or less.

Estimate 2. This measure expands the definitions of contingent workers by including the self-employed (incorporated and unincorporated) and independent contractors who expect to be, and have been, in such employment arrangements for 1 year or less. (The questions asked of the self-employed are different from those asked of wage and salary workers.) In addition, temporary help and contract company workers are classified as contingent under estimate 2 if they have worked and expect to work for the customers to whom they are assigned for 1 year or less. For example, a "temp" secretary who is sent to a different customer each week but has worked for the same temporary help firm for more than 1 year and expects to be able to continue with that firm indefinitely is contingent under estimate 2, but not under estimate 1. In contrast, a "temp" who is assigned to a single client for more than a year and expects to be able to stay with that client for more than a year is not counted as contingent under either estimate.

Estimate 3. The third definition expands the concept of contingency by removing the 1-year requirement on expected duration of the job and on tenure in the current job (for wage and salary workers). Thus, the estimate effectively includes all the wage and salary workers who do not expect their employment to last, except for those who, for personal reasons, expect to leave jobs that they would otherwise be able to keep. Thus, a worker who had held a job for 5 years could be considered contingent if he or she now viewed the job as temporary. These conditions on expected and current tenure are not relaxed for the self-employed and independent contractors, because they were asked a different set of questions from wage and salary workers.

In our analysis, we use the broadest definition of contingency because it allows us to capture the nature of the job "implicit contract." That is, we include workers who expect their jobs not to last, even if they have been working in that position for more than a year.

Contingent Employment in the United States

A series of studies conducted by researchers at the Bureau of Labor Statistics (including Hipple, 1998, and Hipple and Stewart (1996) have shown that: (1) contingent work is more common among women, youth, students, and part-time workers; (2) contingent work is more prevalent in the construction and services industries; and (3) contingent workers are found in both high- and low-skilled occupations. The studies also reveal that contingent workers typically earn less and are less likely to have health insurance relative to non-contingent workers, although contingent workers often have health coverage from other family members.

The most recent survey shows that contingent workers are young, about 20% of contingent workers in the 1999 national survey are below 25 years of age, while the overall share of that age group in the labor force is 13%. In addition, 65% of contingent workers are enrolled in school. These statistics suggest that contingent employment provides entry-level transitional work for those who are entering the workforce for the first time. A temporary job can be that all-important first position that instills the discipline necessary to succeed in the working world, provides networking contacts and references, and helps individuals formulate career aspirations.

It is of interest to note that the rate of contingent employment in the US was estimated at 4.9% in 1995, and fell to 4.4 and 4.3 in 1997 and 1999 respectively. The total number of contingent workers fell from 6.0 million in 1995 to 5.6 million in 1999. This time period is still too short to allow a meaningful examination of the link between contingency rates and other labor market indicators. However, examination of state-level data, particularly in the case of large states, can shed light on factors that may explain variation in this type of employment.

Contingent Employment in California

In 1999, there were 962,000 workers in the state of California classified in the broadest definition of a contingent worker (category 3), representing 6.2 percent of total employment in the state. As Table 3-1 indicates, California has a significantly higher percentage of its workers in contingent jobs than the nation as a whole. In addition, recent trends concerning the contingency rate have been different in the state than the nation. Chart 1 shows that the nation saw a declining contingency rate during 1995-1999, while the state's contingency rate increased.²

² The Null Hypothesis that contingency rates in CA are the same as in US cannot be rejected for 1995. However, the 1997 and 1999 contingency rates in CA are significantly higher than the US rate (95% confidence).

Chart 1
Contingency Rates: CA vs. US

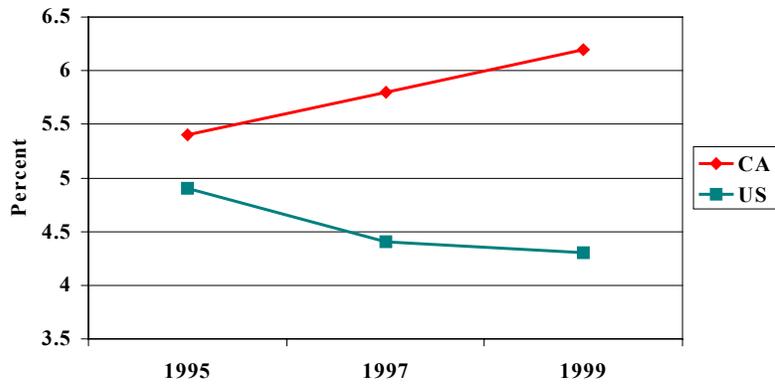


Table 1 provides the number of contingent workers in the state and in the nation. In 1995, California contained just over 12 percent of the nation’s contingent workforce. However, because of growing contingency rates in the state and declining contingency rate in the nation, by 1999 California was home to over 17 percent of the nation’s contingent workforce.

Table 1: Number of Contingent Workers: California and US

	1995	1997	1999
State of California	749,000	826,700	962,000
United States	6,034,000	5,574,000	5,641,000
California’s share of US contingent workforce	12.4%	14.8%	17.1%

Using the CPS data, we examine employment patterns according to worker’s area of residency in the large metropolitan areas of California during 1995-1999. We present data for the largest consolidated metropolitan statistical areas (CMSA’s) of the state: the Los Angeles-Orange-Riverside CMSA, the Sacramento-Yolo CMSA, and San Francisco-Oakland-San Jose CMSA. We also use data from the San Diego metropolitan statistical area (MSA). Los Angeles-Riverside represents close to 50% of the state’s population, San Francisco-Oakland is moving toward 25%, San Diego has evolved to around 10%, and Sacramento–Yolo has doubled its share to 5.1% in 1999. That leaves a shrinking share of employment (down to 15% in 1999) in the remaining, largely non-metropolitan regions of the state.

In 1995, the largest metro areas (Los Angeles, San Francisco and San Diego) had contingency rates similar to that of the state, while Sacramento’s rate was well below the state average. The

remaining area of the state, encompassing much of the state’s agricultural industry, had the highest contingency rate at 6.5%.

However, the various metropolitan areas saw very different trends in the second half of the 1990s. The contingency rate in Los Angeles-Riverside followed a trend similar to that of the nation, with the rate falling from 1995 to 1999. The other half of the state saw a substantial increase in contingency rates. From 1995 to 1999, the San Francisco-Oakland contingency rate increased sharply, from 4.9% to 7.2%. Increases were also seen in the Sacramento-Yolo, San Diego, and remaining areas of the state. Overall, these increases more than offset the modest decline in contingency in Los Angeles-Riverside, causing the state’s overall contingency rate to rise.

Table 2: Contingency Rates by California Region

Region	1995	1997	1999
Los Angeles-Riverside	5.5	5.8	4.7
San Francisco-Oakland	4.9	7.3	7.2
San Diego	4.7	4.6	6.3
Sacramento-Yolo	3.2	6.1	7.0
Rest of California	6.5	4.1	9.0
State of California	5.4	5.8	6.2

The evidence from the regional perspective suggests that rising contingency rates may be correlated with expanding employment, given that San Francisco-Oakland and Sacramento-Yolo experienced rapid employment expansions during the late 1990s. In fact, the notion that a worker in a new job may consider that job to be contingent is not unrealistic. We turn now to examine the demographic characteristics of contingent workers.

Demographic Characteristics of California’s Contingent Workforce

In California, contingency rates are particularly high for young workers under the age of 25. However, contingency rates in California do not follow a clear gender pattern. In 1999, the contingency rate for women was higher than that of men, but the reverse was true in 1997.

Comparing workers with various levels of education, we find the largest percentage of contingent workers among those with the lowest level of educational attainment (less than a high school diploma). Contingency rates are also relatively high among college graduates, pointing to the importance of contingency among professionals. Workers of Hispanic origin have had consistently higher rates of contingency than whites, while blacks and Asian/Pacific Islanders have at times been below the white contingency rate. In 1999, the contingency rate for blacks was 4.2 percent, significantly below the white rate of 6.3 percent. Contingency rates are roughly twice as large among part-time workers compared to full-time workers.

Since there are important differences in the age, sex, race and educational attainment of the labor force, it is also informative to examine the distribution of contingent workers by demographic group. Table 4 reports the distribution of contingent workers in each of the three years, and the 1995-1999 state average distribution of employment by demographic characteristics. It became clear that, while young workers make up less than 15 percent of state employment, they represent between 20 and 30 percent of

the contingent population, and the trend was clearly upward.³ The distribution of contingent employment by gender is 56 percent male and 44 percent female. Contingent employment distribution by gender has been relatively more feminine at times, but not consistently. In particular, the gender distribution of contingent employment was more male oriented than overall state employment in 1997.

In a similar way, the distribution of contingent employment by race moves relative to the overall state employment distribution, except for the fact that the fraction of contingent workers that are Hispanic is higher than the state average. People of Hispanic origin (many of whom are also counted in the white or black category) made up 31 percent of the contingent workforce in California in 1999, versus only 27 percent of the state's overall workforce. The distribution of contingent employment by full-time or part time status reflects a larger concentration in part time employment relative to the overall employment distribution. Moreover, the percentage of contingent workers who worked part-time has been rose from 32 percent in 1995 to 38 percent in 1999, while the state's overall fraction of full time work has seen an increase from 80 to 82 percent.

Comparison of the schooling composition of contingent workers versus the schooling composition of all California workers indicates that the two extreme groups in the education category, (less than a high school diploma, and college graduates) while representing about 45% of the state's labor force, make up 55% of the contingent workforce. The difference is particularly large among workers with less than a high-school diploma. They represent about 13% of the state labor force and close to 20% of contingent employment.

³ This trend occurred despite the fact that the age distribution of the state labor force has not seen a significant change in the same period.

Table 3: Contingency Rates by Demographic Characteristics, California

	Contingency Rates		
	1995	1997	1999
<i>Age and sex</i>			
16 to 19 years	9.2 %	17.0 %	14.7 %
20 to 24 years	8.5	9.1	11.4
25 to 34 years	6.3	5.7	6.8
35 to 44 years	4.5	4.5	5.3
45 to 54 years	3.4	4.1	4.1
55 to 64 years	3.9	5.0	2.8
65 years and over	7.4	7.5	3.9
Men	5.0	6.1	5.8
Women	5.9	5.3	6.6
<i>Race and Hispanic Origin</i>			
White	5.1	5.1	6.3
Black	6.2	8.3	4.2
Asian/Pacific Islander	4.7	8.9	6.5
Hispanic Origin	6.5	5.4	7.0
Part-time work	8.7	10.2	12.8
<i>Educational Attainment</i> (workers over the age of 25 only)			
Less than a high school diploma	6.9	6.4	6.9
High school graduates	5.1	3.7	4.1
Less than a bachelor's degree	3.8	4.4	4.8
College graduates	5.0	5.5	5.3

Note: Hispanics are included in both the white and black groups.

Table 4: Distribution of Contingent Workers by Age, Sex and Race, California

	Contingent Employment			State Employment
	1995	1997	1999	Distribution Period Average 1995 – 1999
<i>Age and Sex</i>				
16 to 19 years	6.8 %	9.6 %	10.0 %	3.8 %
20 to 24 years	15.3	17.3	19.5	10.4
25 to 34 years	32.0	25.9	27.1	26.2
35 to 44 years	24.0	22.5	24.0	28.4
45 to 54 years	12.1	13.8	13.5	19.7
55 to 64 years	5.9	7.8	4.3	8.9
65 years and over	3.9	3.1	1.6	2.6
Total	100	100	100	100
Men	51.8	60.3	51.8	55.9
Women	48.2	39.7	48.2	44.1
Total	100	100	100	100
<i>Race and Hispanic Origin</i>				
White	77.1	71.9	83.3	81.7
Black	7.31	9.83	4.14	6.4
Hispanic Origin	31.2	24.9	30.7	26.6
<i>Employment Status</i>				
full-time workers	67.9	66.4	61.8	80.9
part-time workers	32.1	33.6	38.2	19.1
Total	100	100	100	100
<i>Educational Attainment</i> (workers over the age of 25 only)				
Less than a high school diploma	18.5	18.0	19.1	13.7
High school graduates	22.9	16.6	18.5	22.4
Less than a bachelor's degree	26.7	28.0	28.2	31.7
College graduates	31.9	37.4	34.2	32.2
Total	100	100	100	100

Note: Data for groups in the “Race and Hispanic Origin” categories will not sum to totals, because data for “other races” is not presented, and Hispanics are included in both the white and black groups.

Contingency Rates by Industry and Occupation

The nature of work in some industries or occupations lends itself more naturally to short-term or contingent employment relationships. Traditionally, this has been the case with seasonal labor in farming and construction work. Thus, we expect to find variations in the degree of contingent employment by sector. In fact, as table 5 indicates, contingency rates are highest in agriculture, mining, construction, and services, and lowest in government, finance, insurance, and real estate. An examination of the data from the point of view of occupational classifications (Table 6) confirms the notion that farming and laborer's occupations are more likely to take the form of contingent employment.

Table 5: Contingency Rates by Industry, California

Industry	Contingency Rates by Industry		
	1995	1997	1999
Agriculture	10.2 %	10.1 %	15.2 %
Mining	13.6	11.5	NA
Construction	10.9	11.0	8.0
Manufacturing	3.6	4.9	2.7
Transportation and Public Administration	2.3	5.3	3.7
Wholesale and Retail	3.2	3.1	3.9
Finance, Insurance and Real Estate	1.9	1.8	1.7
Services	7.5	7.3	9.2
Public Administration	2.5	2.2	3.8

Table 6: Contingency Rates by Occupation, California

Occupation	1995	1997	1999
Executive, Adm. & Managerial	3.3 %	2.5 %	3.3 %
Professional	6.0	6.6	8.3
Technicians	3.9	10.6	10.8
Sales Occupations	3.7	2.5	2.6
Administrative Support	5.5	7.3	7.9
Service Occupations	5.2	4.9	5.8
Precision, craft repair	6.3	6.8	4.6
Operators and laborer	8.4	9.8	10.1
Farming forestry fishing	11.0	10.4	18.7

Table 5 also indicates that in 1999 contingency rates in agriculture and services rose significantly. The occupational view from Table 6 indicates that contingent work among professionals has increased steadily between 1995 and 1999; contingency rates among technicians saw a sharp increase between 1995 and 1997; and contingency rates among administrative support personnel rose between 1995 and 1997.

The concentration of employment by sector or occupation, along with the rate of contingency by sector or occupation, determines the distribution of contingent work by sector or occupation. Table 7 below shows the distribution of contingent workers across industries. To evaluate the significance of the sectoral distribution, it is useful to compare it with the state distribution of employment by sector. This table highlights an important fact concerning contingent workers; they are highly concentrated within the service sector. The service sector is the largest single sector in the state's economy with more than 38 percent of total employment. The large size of this sector, combined with a relatively high contingency rate, means that services alone account for over 50 percent of all contingent workers.

Table 7: The Distribution of Contingent Workers Across Industries, California

Industry	Sector Share			State Labor Force Distribution by Sector 1995-99 Average
	1995	1997	1999	
Agriculture	6.7 %	6.1 %	7.6 %	3.4 %
Mining	0.7	0.5	0	0.2
Construction	11.2	11.2	8.2	5.9
Manufacturing	10.5	13.5	6.6	15.4
Transportation and Public Utilities	2.9	5.7	3.9	6.5
Wholesale and Retail Trade	11.8	10.6	12.7	19.9
Finance, Insurance and Services	2.5	1.9	1.9	6.5
Public Administration	51.8	49.0	56.5	38.1
	1.9	1.5	2.6	4.1
Total	100	100	100	100

Table 8: Distribution of Contingent Work by Occupation, California

Occupation	Occupation Share of Contingent Work			Distribution of State Labor Force by Occupation 1995-99 Average
	1995	1997	1999	
Executive, Adm. & Managerial	9.3 %	6.7 %	8.6 %	15.7 %
Professional	17.3	19.3	21.9	16.2
Technicians	2.6	5.8	4.8	3.2
Sales Occupations	7.8	5.5	4.9	11.9
Administrative Support	14.5	18.3	18.4	14.3
Service Occupations	12.9	10.5	12	12.9
Precision, craft repair	21.6	20.3	14	18.3
Operators and laborer	6.9	7.2	6.7	4.2
Farming forestry fishing	7.1	6.4	8.7	3.3
Total	100	100	100	100.00

Earnings and Fringe Benefits

Table 9 shows median weekly earnings for contingent and non-contingent workers, and across broad demographic characteristics. Overall, contingent workers earn less than non-contingent workers. However, as Table 10 indicates, the results differ for various age groups. Generally, younger males in all categories of educational attainment earn less when employed on a contingent basis than on a permanent basis. However, the results are mixed for older males. In some cases, contingent workers earn more than non-contingent workers. For example, while most male non-contingent college graduates earn more than their contingent counterparts, contingent male college graduates over the age of 45 are found to earn more than their non-contingent counterparts. Similar patterns are found among the female workers. While the younger contingent workers are generally worse off than their non-contingent counterparts, the results are mixed for older workers, particularly with higher levels of educational attainment.

Table 9 Median weekly wages of full- and part-time workers in various work arrangements by sex, race and Hispanic origin: California 1999

Characteristic	Contingent Workers	Non Contingent Workers
Full-time workers		
Total, 16 years and over.....	\$440	\$673
Men.....	500	712
Women.....	400	519
White.....	440	692
Black.....	*	519
Hispanic origin.....	300	400
Part-time workers		
Total, 16 years and over.....	120	240
Men.....	128	300
Women.....	120	218
White.....	120	240
Black.....	200	256
Hispanic origin.....	120	231

Source: Prepared by the authors using CPS data. * The sample is too small to allow a meaningful estimate.

Table 10: Median Weekly Salaries Contingent and Non Contingent Workers by part-time and full-time status, age, sex and schooling. California 1999 (Dollars)

Males Full Time

Age	Enrolled		Less than High School Diploma		High School Graduates		Less than a bachelor		College Graduate	
	Contingent?		Contingent?		Contingent?		Contingent?		Contingent?	
	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
20 to 24 years	769	240	240	230	250		596		462	
25 to 34 years			440	336	769	751	769	520	865	500
35 to 44 years			375	680	577	440	600	990	1108	415
45 to 54 years			400	300	750		865	500	962	1154
55 to 64 years			300		577		1000		865	
65 years and over					200				231	

Females Full Time

Age	Enrolled		Less than High School Diploma		High School Graduates		Less than a bachelor		College Graduate	
	Contingent?		Contingent?		Contingent?		Contingent?		Contingent?	
	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
20 to 24 years		520				220	320			
25 to 34 years			250	230	280		500	280	692	600
35 to 44 years			400	306	375	230	392	400	960	808
45 to 54 years			245		500	480	646		946	480
55 to 64 years			175		450		808		288	
65 years and over									700	

Source: Prepared by the authors using CPS data. Empty cells indicate cases where the sample is too small to allow a meaningful estimate

Roughly one half of California employees work for firms that offer pension plans to at least some of their employees, although less than 40% of workers are included in these pension plans. Contingent workers are included in employer-sponsored plans at a much lower rate; only 16.3% of these workers are included in their employer's plan.

Table 11: Fringe Benefits for Contingent Workers vs. All Workers in California: 1995-99

	All California Workers	Contingent Workers
	100.0 %	100.0 %
Firm Offers Pension	48.5	37.7
Worker Included	38.5	16.3
	100.0	100.0
Worker has Health Coverage	75.7	56.1
Source of Health Insurance		
Provided by Employer	49.4	22.2
Employer pays all	18.5	8.9
Employer pays part	28.0	11.4
Provided by Spouse	7.9	10.3
Provided by other Family Member	3.4	8.7
Purchased independently	2.0	4.0
Purchased by Labor Union	0.8	2.3

While three out of four California workers are covered by health insurance, health care coverage for contingent workers falls to less than 60 percent. However, the largest health insurance related difference between workers with permanent jobs and those with contingent work is in the source of coverage. While roughly 50 percent of California workers obtain health insurance via their employer (with financing shared between employer and employee), the most important source of health insurance for contingent workers is outside their employer. Almost a fifth of contingent workers receive health insurance through a spouse or other family member. In addition, a smaller percentage of these workers purchase insurance or receive insurance through their labor union.

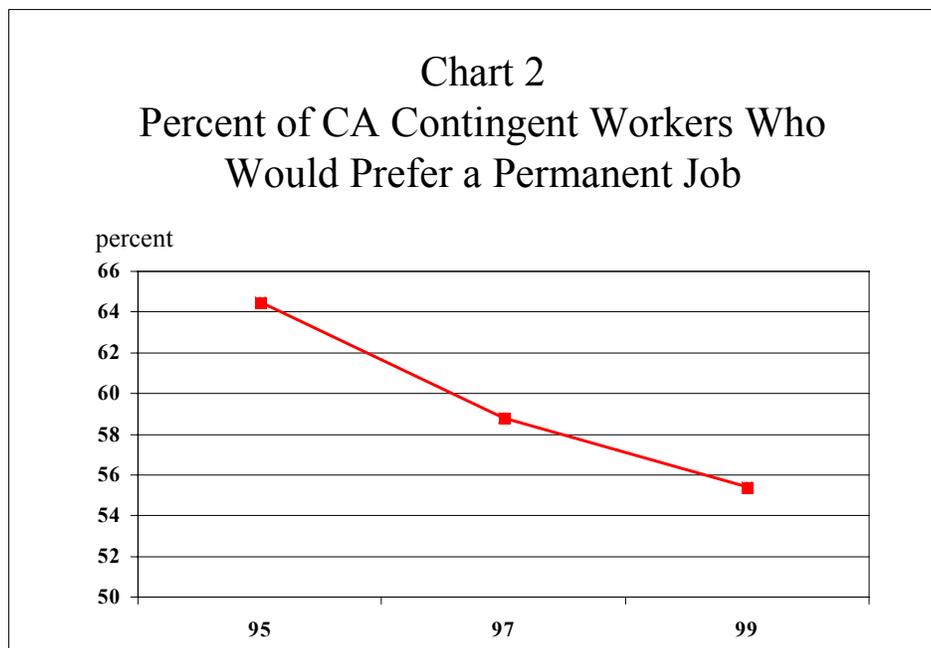
Preferences of Contingent Workers

In the CPS survey, workers are asked questions regarding their preferences for their job status. Interestingly, a significant fraction of workers in contingent work arrangements do not indicate a clear preference for a permanent job. Slightly less than half of contingent workers indicated a preference for a permanent job.

Table 12: Fraction of Contingent Workers With a Preference for Traditional Employment , California

	<i>Year</i>		
	1995	1997	1999
Contingent Worker, Prefer Permanent Job	53.6	42.7	45.6

Trends in the preferences of workers surveyed about preferred work arrangement are illustrated in the figure below. As Chart 2 indicates, the proportion of contingent workers preferring a permanent job fell significantly after 1995. This may indicate that with the strengthening of the economy, those workers preferring a permanent job have been increasingly able to leave contingent arrangements in favor of their preferred type of work arrangement. It is also possible that, as labor market tightness and security of employment are perceived as ongoing market features, security of employment with the present employer becomes less important than other characteristics of the job (such as wage, schedule, etc.)



In addition to obtaining workers' general preferences for the type of job they hold, the CPS survey also asks individuals the main reason why they hold their specific type of job. Table 13 examines the reasons why contingent workers are not in a permanent work arrangement. Of all contingent workers surveyed in 1999, 79 percent answered the question regarding reason for contingent employment. The table does not record all reasons reported, only the most typical. Sixteen percent of workers questioned indicated that a contingent job was the only type of work they could find, 7 percent were working on a contingent basis in the hope that the position would become permanent, 12 percent had chosen a contingent job for the flexibility of schedule that it offered, and 16 percent indicated that they were working on a contingent basis to accommodate the needs of schooling or training programs.

When contingent workers are sorted according to preferences, however, a clear difference emerges as to the reason for contingent employment. Almost all workers reporting that contingent work was the only type of work they could find or reporting that they were employed on a contingent basis in the hope that the job would become permanent indicated a preference for a permanent job. By contrast, most of the workers who reported that school or training programs were the reason for their contingent work arrangement, and almost half of those workers in contingent jobs due to the flexibility of schedule they offer, indicated a preference for a contingent job.

Table 13: Reasons for Contingent Employment: By Preference for Contingent Employment (percent of all contingent workers surveyed), California

	1995	1997	1999
<i>Total answers</i>	69.7 %	71.5 %	79.0 %
Only type or work could find	25.4	18.0	16.2
Hope job leads to permanent position	7.6	5.9	7.0
Flexibility of schedule	6.9	10.7	12.2
In school/training	7.6	13.2	15.9
<i>Workers prefer permanent job</i>	53.6	42.7	45.6
Only type or work could find	24.8	17.3	15.5
Hope job leads to permanent position	7.6	5.3	6.5
Flexibility of schedule	2.9	2.3	5.1
In school/training	2.1	3.9	4.1
<i>Workers prefer contingent job</i>	13.8	22.4	28.0
Only type or work could find	0.6	0.7	0.6
Hope job leads to permanent position	0.0	0.6	0.0
Flexibility of schedule	3.5	7.0	5.3
In school/training	4.3	7.9	10.7
<i>No clear preferences</i>	2.3	6.4	5.3
Only type or work could find	0.0	0.0	0.0
Hope job leads to permanent position	0.0	0.0	0.6
Flexibility of schedule	0.5	1.4	1.8
In school/training	1.2	1.4	1.1

Note: The percentages are all fractions of “contingent workers”
The Table does not report all the answers, only the most typical.

Conclusions and Policy Issues

A key result from the research presented above is that contingency rates in California are significantly higher than in the United States. More importantly, trends concerning the proportion of the labor force employed on a contingent basis have been different for the state as compared to the nation. From 1995 to 1999, California's contingency rate rose from 5.4% to 6.2%. During that same period the nation's contingency rate fell from 4.9% to 4.3%.

Trends concerning contingent employment within California have also been sharply divergent amongst the major metropolitan areas of the state. During 1995-1999, the contingency rate fell in the greater Los Angeles area. By contrast, contingency rates rose in all other areas of the state. The most important factor causing the increase in the state's contingency rate from 1995-1999 was the sharp rise in contingency in the San Francisco metropolitan area. We noted that rising contingency rates may be correlated with expanding employment; San Francisco-Oakland and Sacramento-Yolo experienced rapid employment expansions during the late 1990s. A worker in a new job may consider that job to be contingent.

In California, contingency rates are particularly high for young workers under the age of 25. While the largest percentage of contingent workers in the state is found among those with the lowest level of educational attainment (less than a high school diploma), contingency rates are also relatively high among college graduates, pointing to the relative importance of contingency among professionals. Among sectors, contingency rates are highest in agriculture, mining, construction and services, and lowest in government, finance, insurance, and real estate. However, the large size of the service sector, combined with its relatively high contingency rate, means that this sector alone accounts for over 50 percent of all contingent workers.

When questioned about preferences, less than half of contingent workers (46%) indicated that they would prefer a permanent job. When questioned about the reason for contingent employment, only 16 percent of workers indicated that they were in a contingent job solely for economic reasons. Roughly, the same proportion indicated that they were in a contingent job due to schooling or training. The other major reasons given for holding a contingent job were that it was chosen for flexibility of schedule, or that it was chosen in the hope that it would lead to a permanent position.

These results clearly highlight the diversity of the contingent workforce and shed light on the difficulty of designing appropriate policies to assist contingent workers. For example, a policy designed solely to reduce the number of contingent jobs would likely reduce job opportunities for students and others who clearly value the flexibility of schedule that contingent employment offers. Such a policy might also make it more difficult for job seekers to find employment. A survey of former temporary workers conducted by the National Association of Temporary and Staffing Services in 1995, found that 72 percent of former temps moved into permanent positions (63 percent full-time; 9 percent part-time). Among this population that found permanent jobs, 40 percent (or about 29 percent of all former temp workers) came from the same organization where the worker held his or her temporary job. Indeed, another NATSS survey found that "a way to get full time work" was one of the most significant factors in individuals' decisions to begin temping (see Lips, 1998). Temp-to-hire arrangements, which allow employers to screen candidates for permanent positions via temporary employment, have become increasingly common in the 1990s.

One policy area to explore is whether California's existing labor regulations have played a role in creating incentives for firms to use contingent workers. An example is the case of the unemployment insurance (UI) system. California firms pay unemployment insurance taxes on an "experience-rated"

basis. This system is designed to make those firms whose employees are heavy users of the unemployment insurance system bear a higher proportion of the cost of the program. Research finds that experience rating acts to stabilize employment and gives employers an incentive to contest invalid claims for UI. However, tax rate maximums, minimums, and time lags in tax adjustment weaken these effects. In particular, once a California firm has reached the maximum tax rate of 5.4%, any marginal use of unemployment benefits has no impact on the firms' costs. So use of temps by firms at the maximum is not discouraged.

While employment through temp agencies is not very important overall (just over 1%), in California, 70% of these workers are classified as contingent, using the broad definition. It is possible that the use of temporary employment via temporary help agencies represents a response of the marketplace to incentives created by the UI tax structure. Temporary help agencies provide UI coverage for their workers who in turn, provide labor services for specific firms. To the extent that temporary help work satisfies the minimum earnings test, these workers are covered by the UI system. However, once a temporary help agency has reached the maximum tax rate, any further use of UI benefits by its employees will not affect the UI taxes paid by the agency. In fact, when firms hire contingent workers through a temp agency that has reached the maximum UI tax rate, both the firm and the temp agency bear no additional cost when these workers become unemployed.

The legal system may also be creating incentives for firms to use contingent work arrangements due to the weakening of the employment-at-will doctrine through legislative mandates and judicial decisions. Under the employment-at-will doctrine that applies in the United States, an employer can dismiss workers for a just reason, an economic reason, or no reason at all. Yet in the 1980s, state court rulings have weakened the right of employers to dismiss at will. By 1987, when Montana passed landmark legislation requiring firms to have "just reason" to fire a worker, nine other states had introduced some form of "just reason" legislation. Such statutes include economic cause as just reason for dismissal. Krueger (1991) argues that unjust-dismissal legislation has been introduced to limit employer liability, expedite dispute settlements, reduce legal costs and clarify property rights. But a study by Dertousos and Karoly (1992) provides evidence that wrongful-termination liability creates substantial costs beyond those directly attributable to lawsuits. Firms alter their use of labor causing a decline in aggregate employment of the order of 2-5 percent. They also found that the decline in employment was greater in larger firms, suggesting that costs vary on a per-employee basis.

The erosion of the freedom to dismiss workers at will in California has raised the costs of putting individuals on payroll. Staffing companies have helped reduce those risks by allowing companies to assess an individual's job performance before making a lasting commitment. Autor (2000) argues that the weakening of the employment-at-will doctrine can explain as much as 20% of the growth of temporary help services between 1973 and 1995. Further research might help to determine the extent to which these regulatory/legal factors have played in determining the rise of contingent employment in California.

While much is still not known about the cause of California's rising contingency rate, this study does point to one important fact concerning contingent workers in California that is relevant to any potential policy intervention. There is great heterogeneity in California's contingent workforce in terms of characteristics, earnings, access to health insurance, and preferences regarding ideal work structure. For some workers, contingent jobs are clearly "second-best" options that are chosen due to the lack of a better alternative. For others, however, a contingent job may fit optimally into a household strategy that balances the benefits of traditional employment with the flexibility of non-traditional types of employment. Still others may prefer non-traditional employment because of the necessity of balancing the demands of schooling with those of work. If the objective of policy is to improve the welfare of all

California workers, this heterogeneity must be taken into account when designing policies that will affect the contingent workforce.

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