

## **Alternative Work Arrangements: Business and Life Cycle Implications**

*By Rosemary Kaiser*

Many countries have employment protections that create two-tiered labor markets in which some jobs are more secure than others. Those in less secure jobs tend to be younger, experience more frequent unemployment spells, and contribute to labor force flexibility.

Common examples of these alternative work arrangements include independent contract work and employment through staffing agencies or contract firms.<sup>1</sup> These less secure alternative arrangements contribute heavily to labor force flexibility over the business cycle. In the European Union (EU), alternative work arrangements accounted for 14.8% of all jobs in the fourth quarter of 2019. However, losses in these jobs accounted for 68.4% of all net employment losses during the 2020 recession. After controlling for changes in factors that might disproportionately affect employment in either type of job, quarterly data spanning from 1998 to the end of 2020 show that the growth of employment in alternative arrangements responds more than four times as much to changes in GDP growth than does growth in non-alternative arrangements.

The use of alternative work arrangements varies dramatically by country, and several studies have suggested that countries respond differently to recessions given different regulations regarding these arrangements.<sup>2</sup> Figure 1 compares the 2019 annual average of employment in alternative arrangements as a percentage of total employment by country. While flexible alternative jobs comprise more than 20% of all jobs in Spain, Poland, Portugal, and the Netherlands, these jobs make up less than 2% of jobs in Romania.

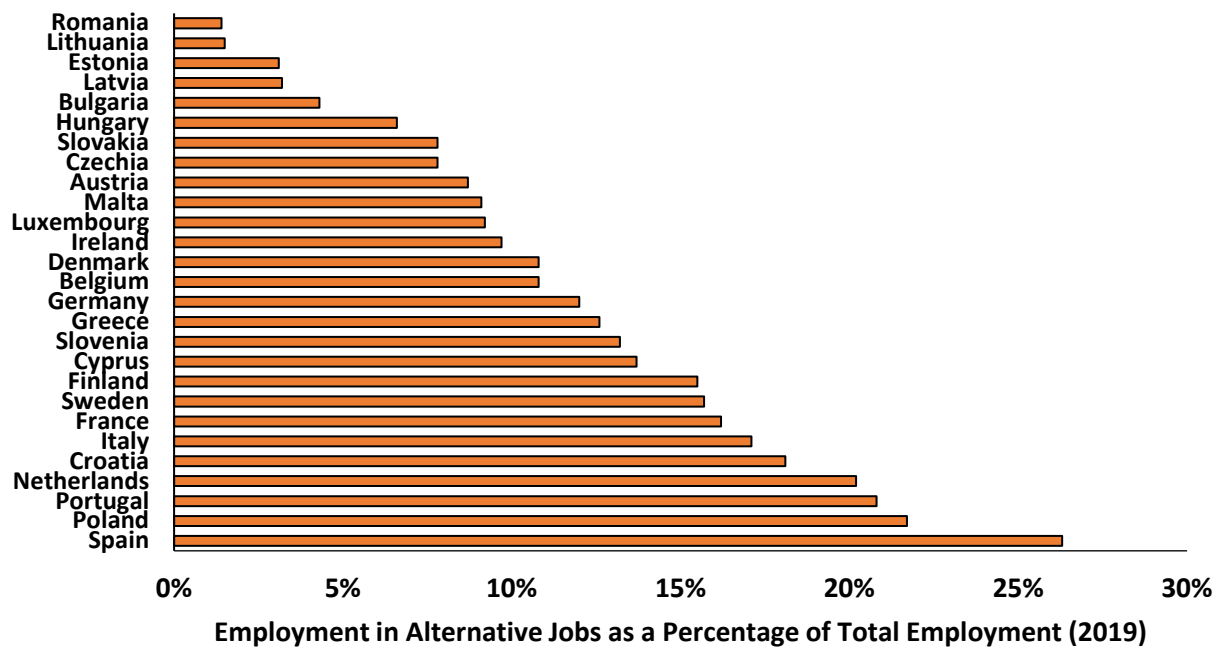
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<sup>1</sup> The terminology used to refer to this class of workers often varies from source to source, with these workers being called “fixed-term” or “temporary” workers in much of the European data. The term “alternative work arrangements” follows from the U.S. Bureau of Labor Statistics Contingent Worker Supplement’s measure of the most comparable type of arrangements in the United States.

<sup>2</sup> Among these is Bentolila et al. (2012).

Figure 1

### Prevalence of Alternative Arrangements by Country



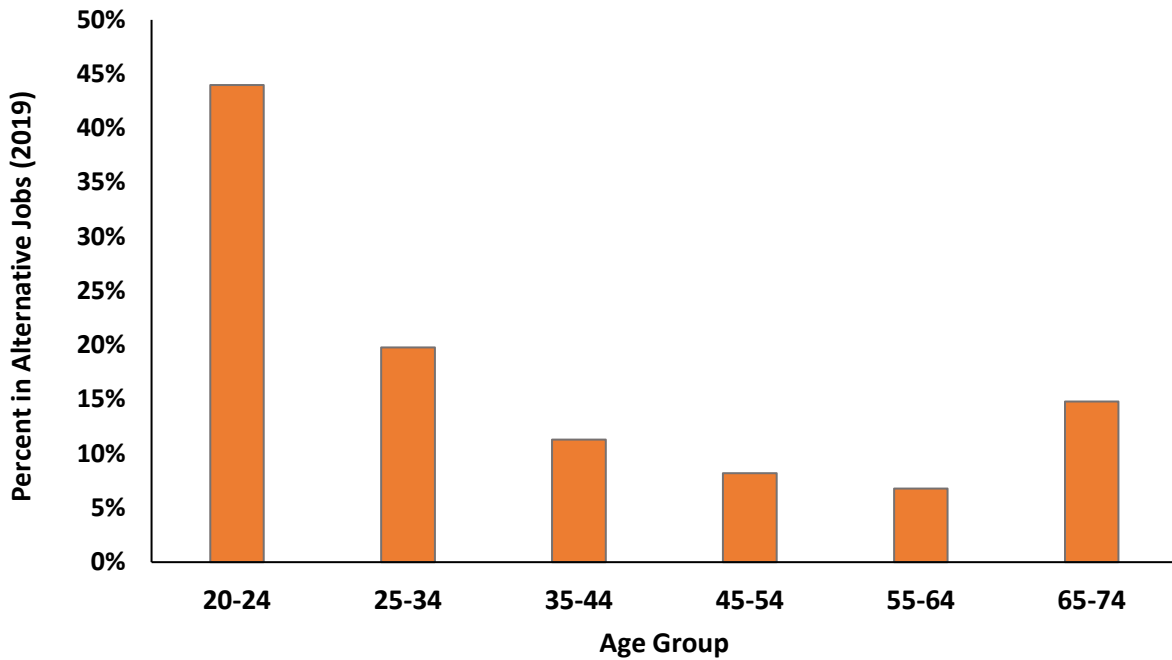
Employment in alternative arrangements in the United States is measured much less frequently compared with the EU. The Current Population Survey (CPS) Contingent Worker Supplement classifies independent contractors, on-call workers, and those employed through temporary help agencies or contract firms as workers in alternative employment arrangements. This measure by the CPS Contingent Worker Supplement is the measure most comparable to the European data. According to the Contingent Worker Supplement, 10.1% of workers in the United States worked in alternative arrangements as of 2017. The response of alternative arrangements over the business cycle cannot be observed in the United States because the Contingent Worker Supplement only measured employment in these jobs once in 2017, 2005, 2001, 1999, and 1997.

#### Younger Workers Are More Likely To Be Employed in Alternative Jobs and May Experience Lasting Effects

A less-understood aspect of alternative work arrangements is how these jobs impact workers over their lives. Figure 2 shows an annual average of the percent of all workers in the EU who were employed in alternative jobs in 2019 by age group. Those in alternative arrangements face more frequent unemployment spells, which can affect their future employment and wages.

Figure 2

Percent in Alternative Jobs by Age

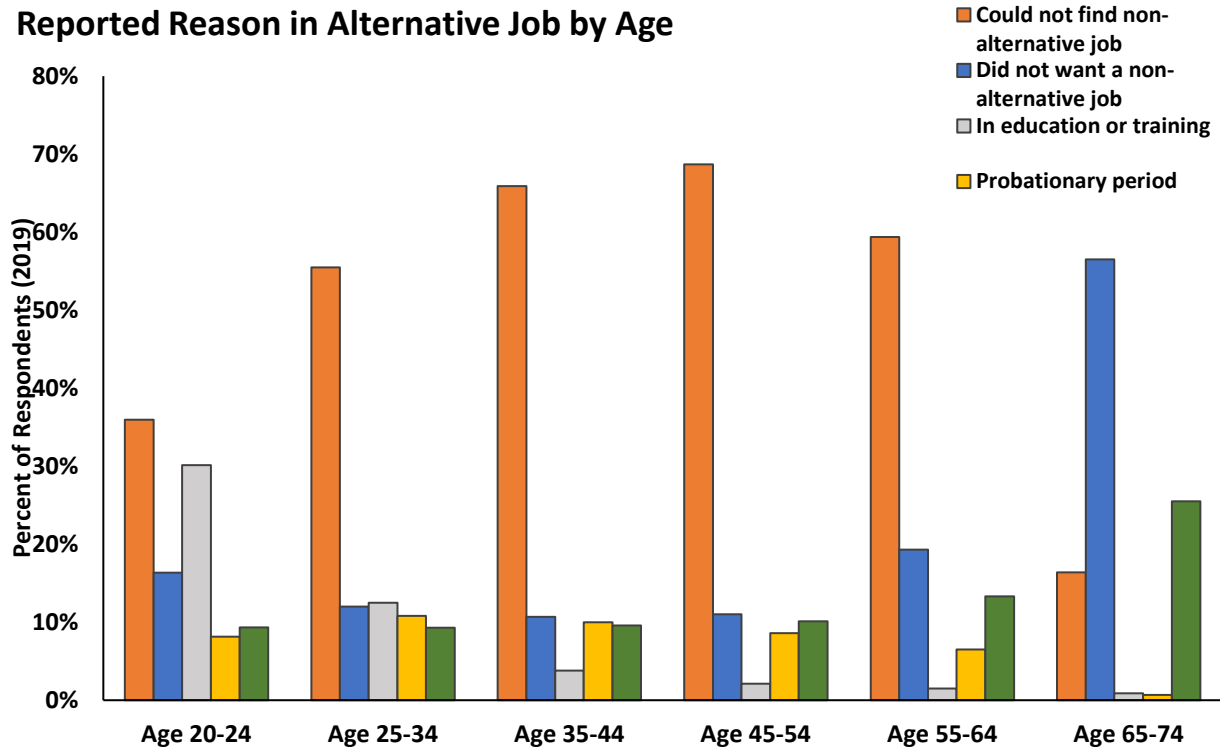


To accurately quantify the role of alternative arrangements in an economy’s response to aggregate fluctuations, it is necessary to consider the effects of these arrangements on the employment and on-the-job skill accumulation of young workers. Additionally, when considering the impact of employment in alternative arrangements on workers’ lifelong employment outcomes, it should be noted that the effects if employed when a recession begins may be vastly different from employment in an alternative arrangement when the economy is strong.

Alternative Arrangements Are Generally Not Preferred but May Act as Stepping-Stones into More Stable Work

Generally, alternative arrangements are not viewed as desirable by many employed in those jobs. At most age groups, most workers in alternative arrangements report being in their current job type because they could not find a non-alternative arrangement (Figure 3).

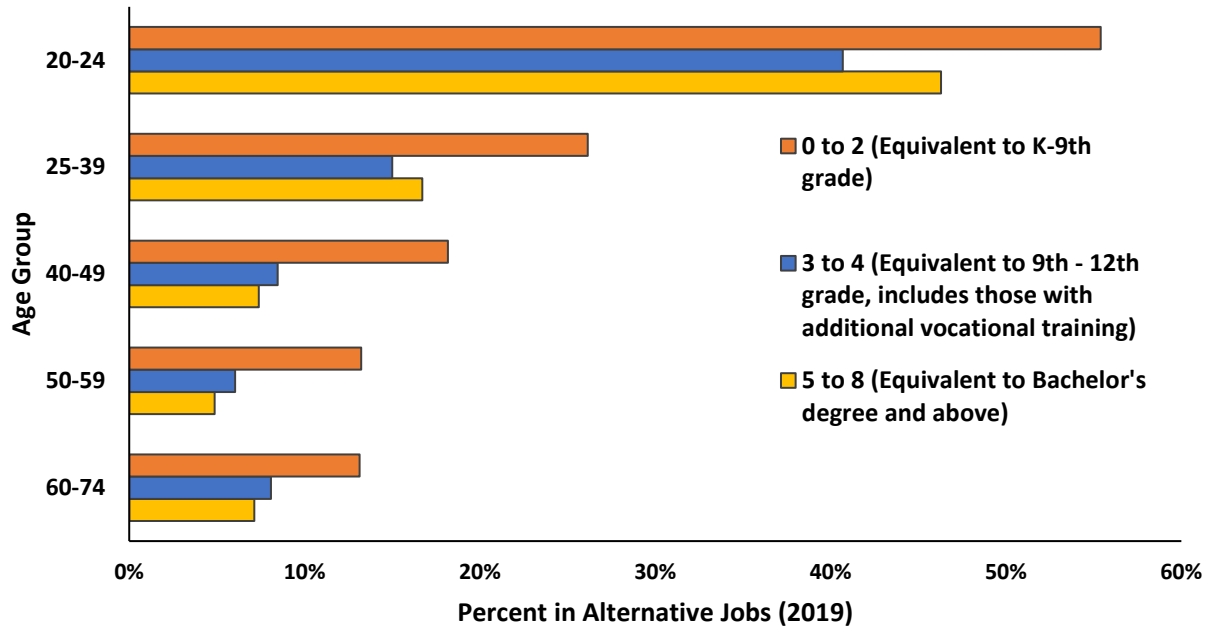
Figure 3



Throughout the business cycle, the effect of allowing for a more flexible type of work arrangement on the employment of a particular group is unclear. Lesser employment protections may increase job destruction, as it is easier to fire workers. However, lesser employment protections may also increase job creation, as firms are more willing to hire workers, especially those with little experience or formal training, in more flexible arrangements. Alternative arrangements are disproportionately held by the young, and Figure 4 shows that they are also disproportionately held by those with lower educational attainment, measured using International Standard Classification of Education (ISCED) levels. Although they tend to provide less stability, alternative arrangements may act in some situations as stepping stones into more stable jobs for those entering the labor force with little formal training.

**Figure 4**

**Percent in Alternative Jobs by Age and ISCED Level**



Data Sources

All reported European data are from the European Union Labour Force Survey and the author's own calculations. These data are publicly available from Eurostat (<https://ec.europa.eu/eurostat>).

Data regarding the prevalence of alternative arrangements in the United States are from the Contingent Worker Supplement of the Current Population Survey.

Reference

Bentolila, Samuel; Cahuc, Pierre; Dolado, Juan J. and Le Barbanchon, Thomas. "Two-Tier Labour Markets in the Great Recession: France Versus Spain." *Economic Journal*, 2012, 122(August), F155-F187.