



# Defining the Independent Workforce:

## What is it, why is it expanding, and what are its challenges?

### Overview

The independent workforce is the segment of the labor force working outside of standard employment arrangements as independent contractors, temporary workers, contract workers, leased workers, part-time workers, on-call workers, day laborers, and the self-employed. This group comprises nearly one-third of the workforce today.

Independent work arrangements can suit both employers and workers, though certain workers would prefer traditional employment. Flexible hiring saves businesses money by improving efficiency and cutting human resources costs. Some workers view independent work as a way to add balance to their personal lives or depth to their professional lives, while others find themselves in such arrangements involuntarily.

Regardless of employees' or employers' preferences, independent work arrangements present a fundamental challenge to existing employer-based systems that deliver health insurance, retirement plans, unemployment insurance, and workplace protections to workers.

### The Independent Workforce, Defined

The independent workforce is the segment of the labor force that is employed outside of standard work arrangements. Standard work is defined as full-time, long-term, year-round employment with a single employer. In contrast, in all independent work arrangements, the employer-employee relationship that characterizes standard employment is weak or absent. Independent work differs from standard work in that it may involve the absence of an employer, a distinction between the legal employer and the organization for whom the work is performed, an uncertain duration of employment, and/or lack of access to the system of employment laws and employer-sponsored benefits.

Researchers who have studied independent work arrangements have examined their impact on wages, job security, job satisfaction and access to health insurance, pension plans, and other employee benefits. These various research questions have influenced the way this group is defined and understood. Studies primarily concerned with declining job security have focused on contingent workers, or the fraction of the group whose work arrangements differ from standard work primarily because they are short-term, temporary or involve unpredictable schedules. Other researchers have focused on alternative work arrangements, or the segment of the group that does not



**An independent worker is detached from the employer-based system of benefits and workplace protections as a result of his or her work arrangements.**



have a standard employer-employee relationship. Still other research has focused on the impact flexible staffing arrangements have had on job quality and job satisfaction.

For the purposes of solving the social problems created by shifts in employment arrangements, Working Today is primarily concerned with changes to work arrangements that cut off workers' access to benefits and workplace protections. Using this metric, we define an independent worker as any worker who, due to the nature of his or her employment arrangements, is detached, in whole or in part, from the employer-based system of benefits and workplace protections. Such work arrangements include temporary employment, independent contracting, self-employment, freelancing, contract employment, leased employment, part-time employment, day labor, and on-call employment.

## Challenges to Understanding the Size of the Independent Workforce

### Why does an accurate count of the independent workforce matter?

Over time, the varying segments of the independent workforce that have been the subject of study have become conflated and confused, making it difficult for policymakers and the media to define the group and grasp its full scope. In addition, before 1995, data was collected only on certain segments of the group, such as part-timers and temps. The limitations of the data collected before 1995 complicate attempts to understand the ways in which the group has changed over time.

A consistent definition and accurate count of the independent workforce is necessary if policymakers, the media and the public are to understand the need for change. It is easy to overlook an inconsistently defined group of workers whose common needs are unclear. Taken separately, the various sub-groups that comprise the independent workforce may seem relatively insignificant. But taken together, the size of the group is striking and marks a significant shift in the labor force: nearly a third of the workforce is working without access to some or all of the protections provided by employment laws and employer-sponsored benefits.

### The size of the independent workforce

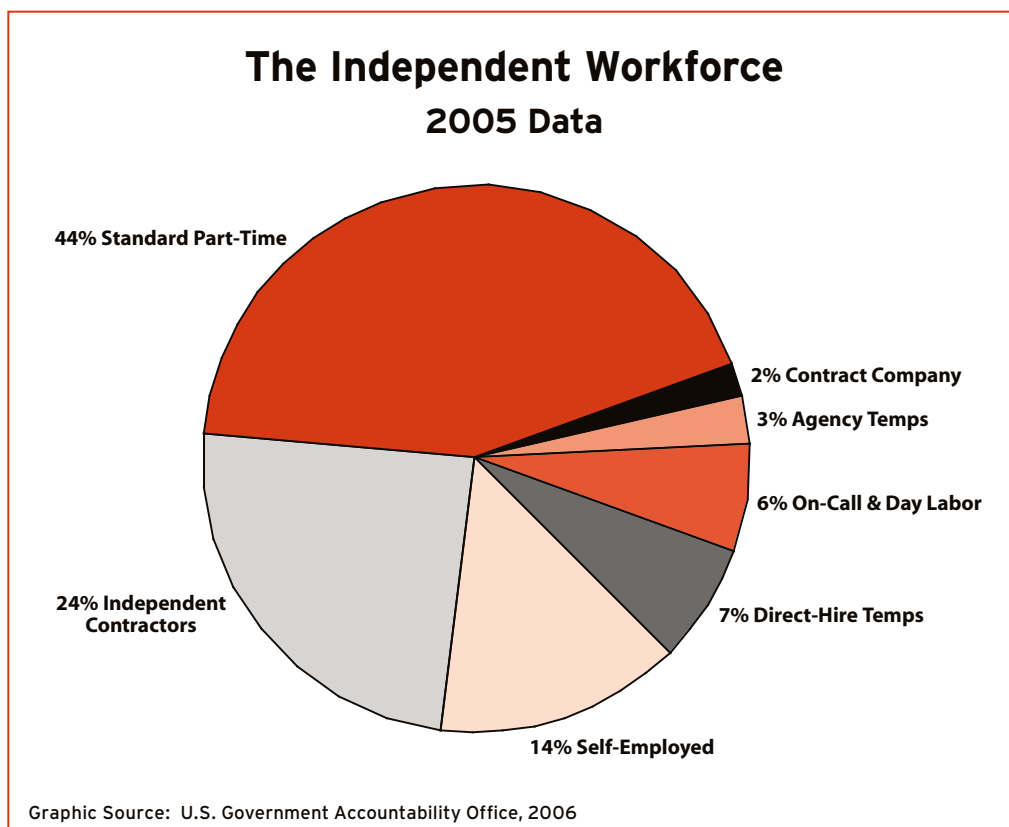
Through its Current Population Survey, the Bureau of Labor Statistics provides the most comprehensive data available on the sub-groups of workers that comprise the independent workforce. The Contingent Worker Supplement to the CPS has collected information on temps, independent contractors, on-call workers, day laborers and contract workers every other year since 1995, except for 2003. Data on part-time workers and other categories of self-employed workers are available from the CPS, and can be combined with CWS data to create a comprehensive estimate of the size of the independent workforce. The CWS, combined with supplementary data from the CPS, also offers the best opportunity to track changes in the independent workforce over time. Studies of the group rely almost exclusively upon this data.

There are some limitations to the approach taken by the CWS. The CWS's goal is to collect information about workers who work in "alternative employment

arrangements”, rather than to collect information about the full spectrum of independent workers as we have defined them. CWS data does not directly measure temporary workers who do not work through an agency, does not count leased workers, and probably undercounts agency temps<sup>1</sup>. In addition, CWS’s reliance on self-reporting methodology probably fails to count many workers who consider themselves full-time employees but are technically classified as independent contractors.

Though no other organization tracks information on all of the sub-groups that comprise the independent workforce, other institutions collect information on portions of the group. The Census Bureau tracks data on non-employers, or the number of firms without employees reporting income from self-employment. The BLS Current Employment Statistics division has collected information on temporary employment since 1982.

In 2000, Working Today requested a study from the General Accounting Office to examine the data available on the independent workforce, in order to learn more about the group’s size, growth, and access to workplace benefits and protections. By combining data from the standard Current Population Survey and the Contingent Worker Supplement, and estimating the number of direct-hire temporary workers, the study concluded that independent workers comprised nearly 30% of the workforce. An update of the study issued in July 2006 found that while the number of independent workers has risen by nearly three million workers over the last decade, their proportion of the workforce has remained steady at 31%.<sup>2</sup>



## Why do workers and employers choose independent work?

Workers and employers choose independent work for many different reasons. A review of those reasons illustrates that some workers do so voluntarily, some involuntarily, and that some end up working independently by chance or circumstance. Employers generally view independent workers as a means to improve efficiency and save money.

### Independent workers help control costs and improve access to talent

Independent work arrangements offer employers solutions to a number of problems. Temporary workers and independent contractors allow employers to efficiently accommodate fluctuations in their workload created by changes in the economy or seasonal demand. Temps and on-call workers also help maintain staffing levels when permanent employees are sick or on vacation. Hiring freelancers or independent contractors allows employers access to specialized skills when there may not be enough ongoing work for a permanent staff member.

Hiring independent workers may also become a response to structural economic shifts. Increased competition – particularly international competition – is putting pressure on employers' costs, encouraging them to seek new strategies to increase efficiency. Moreover, as companies embrace information technology and its ever-increasing ability to support telecommuting, the need for permanent, in-house staff has declined and may continue to do so. Use of flexible staffing arrangements provides access to high-end talent on an as-needed basis, allowing businesses to control costs while accessing skilled workers. In the future, as baby-boomers begin to retire and the number of workers declines, companies may hire more independent workers as a competitive strategy.

Employers also benefit from flexible or short-term staffing arrangements because they save money on salaries, payroll taxes and employee benefits like health insurance and retirement plans. Opting to hire independent workers rather than additional permanent staff can help employers avoid legal or institutional complications involved in offering benefits to some employees and not others.

### Independent work can benefit workers

Many workers embrace independent work. Independent work gives them the control over their time that allows them to meet family obligations or pursue a serious hobby or side career. Some independent work arrangements offer workers the opportunity to advance their careers by building diverse experience and skills over the course of many short-term projects. Flexible work arrangements also allow workers to make a living in industries in which permanent work may not be a viable option, either because the industry's structure does not support it or because work has become scarce enough that few full-time positions are available.

For many workers, independent work has been the industry standard for decades. Actors, artists, and other creative professionals have always worked outside the traditional employment model. Other workers, such as those in journalism and entertainment production, have seen independent work become the standard recently. For workers in these industries, traditional full-time jobs are scarce. To work as an actor or production assistant, one must sacrifice the expectation of traditional, full-time employment.

Another group of people turns to independent work after being downsized or experiencing an overall contraction in employment opportunities in their industry. Some resent this change to their work arrangements, while others find it unexpectedly liberating. A respondent to Freelancers Union's 2006 survey of over 3,000 independent workers summarized this experience: "After my company laid me off - I was a regional marketing manager - I could not find a job to save my life. I decided to start my own communications consulting firm. I'm having a great time giving corporate America a run for their money."

Many workers choose to become independent in order to escape the corporate environment, nurture their creativity, restore balance to their lives, or build a depth of experience that would not be possible in a full-time position. One survey respondent explained: "I chose to work freelance so I could have the freedom and time to pursue the things in life that I find most important. I believe, as a freelancer, I am taking control of my own destiny." For some, independent work is a personal choice and a means to achieving overarching professional and lifestyle goals.

### Some workers would prefer to be standard employees

Other workers find themselves misclassified as independent workers by employers trying to save money on payroll taxes and employee benefit expenses. Often referred to as "permalancers" or "permatemps," these workers are assigned a temporary status despite working full-time for many months or years.

Permalancers report feeling frustrated and angry at being denied employee status and accompanying benefits when their work is structured much the same as that of the full-time staff. As one survey respondent wrote: "This system combines all of the detriments of freelancing with the worst parts of being a traditional employee - and it seems rather common." It is likely that in many of these instances workers are illegally misclassified as independent contractors or temporary workers so their employers can avoid paying taxes and benefits.

In general, temporary employees and on-call workers have mixed feelings about their work arrangements. Data from 2005 shows that 59% of agency temps would have preferred to work for a different type of employer, and 48% of on-call workers and day laborers would have preferred jobs with regular hours.<sup>3</sup>

### Policy challenges

Independent workers lack access to the system of employer and government-sponsored benefits for different reasons. Some have employers that don't provide traditional benefits, while others simply don't have employers in the traditional sense.

Independent workers with employers include temps, part-time workers, and contract company employees. Typically, these employers do not provide health insurance, retirement or any other employee benefits. These employers could offer benefits, but generally do not. Indeed, the viability of certain employers' businesses, such as temp agencies and contract companies, depends on their ability to cut labor costs - often through savings on employee benefits - for their clients.

Other independent workers, such as independent contractors and the self-employed, do not have an employer relationship through which to access benefits. These workers must find their own health insurance, retirement plans, and other services generally provided by employers. They are cut off from a variety of government programs that are mediated by employers, such as unemployment insurance, worker's compensation, and employment law protections. These workers also face additional social security tax liability and other tax-related obstacles.

Independent workers represent a substantial fraction of today's labor force. The traditional employee-employer relationship is evolving into a variety of alternative and flexible models of work. Yet, the system through which essential services and workplace protections are delivered assumes that everyone works as a full-time, permanent employee for a single employer. Health insurance access, retirement savings plans, unemployment insurance, worker's compensation, and a host of workplace protections are based on this model. As a result, an increasing number of workers are barred from access to essential services and programs.

## Conclusion

Our social safety net must adapt to the needs of the changing workforce. Independent workers require flexible programs for health insurance, retirement, and workplace protections that are not tied directly to their employers.<sup>4</sup> Access to these services must move with the worker seamlessly across projects and employment arrangements. Adaptation of current systems and development of new ones to accommodate modern work arrangements are necessary to maintain a stable, healthy workforce for the future.

## Resources

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## Footnotes

<sup>1</sup> Houseman, Susan. "Flexible Staffing Arrangements: A Report on Temporary Help, On-Call, Direct-Hire Temporary, Leased, Contract Company, and Independent Contractor Employment in the United States." Kalamazoo, Mich: W.E. Upjohn Institute for Employment Research, Aug. 1999

<sup>2</sup> United States Government Accountability Office. "Employment Arrangements: Improved Outreach Could Help Ensure Proper Worker Classification." July 2006.

<sup>3</sup> *ibid*

<sup>4</sup> See other Working Today issue briefs for more detailed information on these topics.

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