The Dutch market for agency work
Moolenaar, D.E.G.

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1.1 Background

In its 2000 review of the Dutch economy the OECD observes that the Netherlands perform well with strong real GDP growth and job creation.

*Especially in terms of growth and employment, its performance has been significantly better than that of the EU or the OECD area on average. (…) The unemployment rate (…) has fallen to around 3¼ percent in 1999, a level last seen in the early 1970s, and is well below the structural rate estimated by the OECD Secretariat at over 4 percent.* (OECD, 2000)

After the deep recession of the Early Eighties the Dutch economy made a remarkable recovery by a combination of wage moderation, welfare reform and labor market policies. The emphasis lay on more labor market flexibility which resulted in a job growth rate far above the EU average. As part of this policy package contingent work was promoted. Contingent work is any work arrangement which differs from full-time, permanent wage and salary employment (Polivka & Nardone, 1989).

One form of contingent work is agency work (i.e. working through a temporary work agency). Temporary work agencies contribute to labor market flexibility. Currently the percentage of the labor force that does agency work is over four percent which is higher than ever before and also higher than in surrounding countries. While in other countries agency work is often limited to office work and industrial labor, in the Netherlands agency workers can be found in every sector of the Dutch economy. A Dutch shopping area is likely to contain not one but several temporary work agencies (OECD, 1993a). This makes them easily accessible and reflects the popularity of agency work. This makes the Dutch agency work industry quite unique. Nonetheless very little research has been done into the subject of agency work. This book aims to start filling that gap by looking into the market for agency work.
1.2 Inflexibility of the Dutch labor market

After the second oil crisis in the Early Eighties the Netherlands faced a poorly performing economy. Unemployment had reached spectacular heights with nearly twelve percent of the labor force out of work while at the same time fourteen percent of the labor force lived on a disability benefit.

To support broad public welfare policies and a large number of beneficiaries high taxes were necessary. High taxes on the wage bill caused a large gap between net and gross wages, which made labor a relatively expensive production factor for employers and reduced labor demand. A relatively high minimum wage combined with high social insurance contributions and income taxes made low productivity labor relatively expensive.

Institutional constraints and an inappropriate wage structure led to low labor market mobility. Due to the stringent firing rules the employer could not act upon changing economic circumstances. In times of a high demand, the employer was not at liberty to hire as many workers as he wanted, because in case of diminishing demand he was stuck with redundant workers who could only be dismissed at large costs. For workers it was also disadvantageous and risky to move to another job. A new employer would be reluctant to offer a permanent contract, because it was difficult to fire an employee if he did not suffice.

A related problem was that until 1985 internal mobility (mobility within a firm) was high among men while women rarely reached the top. The female participation rate was low, especially among married women. In most households there was only one source of income. On the other hand, (involuntary) external mobility (mobility from one firm to another) was much more common among workers with a difficult labor market position. Thus they were faced with the biggest problems.

Those who were unemployed had a good chance of getting stuck in the poverty trap. Dutch unemployment benefits were high and the unemployed often qualified for other subsidies as well, such as housing subsidies and remission of municipal taxes. If an unemployed person found a job, his gross salary increased. But not only would he have to pay more social benefit premiums and income taxes, he would also lose most of the subsidies. So his net income decreased. As a result people had high reservation wages and were not likely to apply for low wage jobs. This added to labor market inflexibility.

So although originally the stringent firing rules, a high minimum wage and high unemployment and disability benefits were meant to protect employees from large falls in income, these institutional constraints were now working against them.

A more flexible labor market could help to overcome many of the problems mentioned above. In 1982 unions, employers' organizations and the government reached an agreement to work on
the problems together. Instead of dictating demands all parties involved tried to find a compromise so that everyone's wishes were partially fulfilled. The government, together with unions and employers' organizations, decided that the best way to promote labor market flexibility was a combination of wage moderation, welfare reform, fiscal reform, job growth and innovation of labor market policies aimed at reinsertion of the long-term unemployed (Visser & Hemerijck, 1997). In return for wage moderation employees received a modest reduction in working time, and early retirement options. As a result of benefit cuts taxes and social charges were lowered. To maintain tax income the tax base was broadened. In the 1990s labor market policies moved from income protection to the promotion of (re)employment. Wage subsidies, tax credits and subsidized jobs were introduced. The Public Employment Service was privatized as far as job mediation is concerned. In a tight labor market, policy is now more directed towards the reinsertion of unskilled and low paid workers. Temporary work agencies have become recognized as institutions that can help employ people with a weak labor market position. Agency workers now have the same rights as regular workers.

1.3 Flexibility

As part of the labor market policies flexible work arrangements were promoted. There are two forms of flexibility: volume flexibility and wage flexibility. Wage flexibility requires changes in the real wage rate when the labor market situation alters. Volume flexibility denotes flexibility of demand and supply. Quantities adjust, not in persons but in man-hours.

When applying wage flexibility labor costs, and thus wages are adjusted. Traditional pay schemes (pay scales, collective bargaining agreements, seniority wage progression) will be replaced by a performance-linked wage system. This includes basic wages with additional performance-linked payment either individually or as a group/team, performance-related bonuses, end-of-year bonuses, and profit-sharing schemes.

Volume flexibility can take on a number of forms (OECD, 1989; De Haan et al., 1994). The first form is external numerical flexibility, whereby the number of employees is adjusted to needs. Examples are redundancies, collective dismissals, fixed-term contracts (short-term contracts, temporary work agency contracts, project dependent contracts), part-time work (job sharing, job splitting).

The second form of flexibility is externalization. In this case part of the firm's work is put out to enterprises or individuals who are not bound by a contract of employment. In the case of outsourcing employment contracts are replaced by commercial contracts (work that was formerly
done in-house, now gets done by a commercial enterprise). Other possibilities are subcontracting and using self-employed workers.

Thirdly, when internal numerical flexibility is applied, the number of working hours is adjusted in line with needs, but the number of workers remains unchanged. Frequently implemented policies are flexible working hours (for example call contracts, where you are called when necessary), possibly with an average number per period (like min-max contracts, where only the minimum and maximum number of working hours is guaranteed), flexible annual leave or public holiday arrangements, various systems of shift work. Most importantly, the number of employees does not change!

A fourth form is functional flexibility, which implies that workers’ job assignments are modified according to needs (for example substitute contracts, where you are called when a substitute is needed). Workers have multiple skills and can be switched from one activity to another. The total number of employees and the total number of working hours remain unchanged. Continued training is necessary.

Table 1.1 gives an overview of the degree of flexibility in various forms of contingent work. An important characteristic of contingent work is a lack of attachment between the worker and the employer. Contingent work offers a low degree of job security. There is no explicit or implicit commitment for long-term employment or the minimum hours worked may vary in a non-systematic way. An important feature of contingent work is the degree of access to social benefits.

Given the widespread occurrence of temporary work agencies in the Netherlands this study will focus on one particular form of contingent work, namely working through a temporary work agency, henceforth referred to as agency work. Table 1.1 shows that agency work and self-employment both score in all categories of flexibility.

<table>
<thead>
<tr>
<th></th>
<th>flexible number of hours</th>
<th>variable income</th>
<th>fixed term</th>
<th>high job mobility</th>
<th>low degree of security</th>
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<td>substitute contracts</td>
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<td>min-max contracts</td>
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<td>self employed workers</td>
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<td>shift work</td>
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<td>agency work</td>
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INTRODUCTION

Table 1.2: Size of contingent work among employees*, 1992-2000 (%)

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<td></td>
<td>total</td>
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<td>call contract</td>
<td>substitute contract</td>
<td>other flexible contract</td>
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<td>7.6</td>
<td>1.9</td>
<td>1.5</td>
<td>0.7</td>
<td>3.4</td>
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<td>Flexible contract</td>
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<td>92.5</td>
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<td>91.9</td>
<td>8.1</td>
<td>2.2</td>
<td>1.7</td>
<td>0.7</td>
<td>3.5</td>
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<td>2.8</td>
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<td>89.7</td>
<td>10.3</td>
<td>3.8</td>
<td>2.3</td>
<td>0.8</td>
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<td>90.6</td>
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<td>0.5</td>
<td>3.6</td>
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</tbody>
</table>

a working at least 12 hours a week
b this includes short-term contracts, outsourcing, min-max contracts and other flexible contracts not mentioned before.

Source: Labor Force Survey, Statistics Netherlands

Table 1.2 shows the size of contingent work in the Netherlands in the period 1992-2000. These are the results from the Labor Force Survey, where only people working at least twelve hours a week are counted. On average about nine percent of all employees had some kind of flexible contract. If people working less than twelve hours would have been included, this share will be much higher (see section 3.3). Agency work accounts for a large share. In the peak year 1998 the share of agency work was the highest of all flexible contracts.

1.4 Agency work

Decisively, the most important characteristics of agency work are a short period of employment and a tripartite involvement. The three parties involved are the user company, the temporary work agency and the agency worker.

Assigning or leasing out workers to user companies need not be the sole activity of the temporary work agency. A temporary work agency may also be involved in permanent job placement, outplacement or training programs. Temporary work agencies need not be commercial enterprises. For example, in the Netherlands a non-profit temporary work agency exists, which concerns itself primarily with less favored groups on the labor market. The public employment service does not qualify as a temporary work agency. Frequently, the positions it has on offer are temporary, but its main aim is to help its clients to permanent jobs. This leads to the following definition of agency work which is an adaptation of the definition by Carley (1990):
An agency contract is a labor contract which is temporary in nature and which comes about by the intervention of a temporary work agency, whose principal activity is to assign or lease out workers to other firms.

Short-term labor contracts are not considered to be agency work contracts. Although they are temporary in nature they did not come about by the intervention of a temporary work agency.

The importance of agency work has been highly underestimated. Agency work is a good indicator for rising or falling industrial production. When an economy is going into recession temporary work agencies are one of the first branches to suffer. On the other hand, a growth in agency work usually indicates an upcoming boom. Many economists have a tendency to see agency work as a second best option when permanent work is not available. However, for numerous people agency work is a way of life: they do not want a permanent job, at least not in the near future. They like the flexibility agency work provides them. They can choose their own working conditions: if they want to do part-time work one week and shift work another, that is possible. If they only want to work ten days per month, that is feasible too. For mothers agency work is usually much easier to combine with school hours than permanent jobs are. Agency work is sometimes a good option for students, who often have irregular classes and study hours which are difficult to combine with an ordinary job. Sometimes retirees rejoin the workforce as agency workers. They do not want a new permanent job, but like to work occasionally. Naturally, there are workers who consider an agency job to be a step closer towards a permanent job. If it is difficult to get a permanent job an agency job can bridge the unemployment gap. This is especially true for people with a weak labor market position. Agency jobs are more easily accessible than regular work, because there is no application procedure. Moreover, agency work can provide good job experience. This could be advantageous if the education level of a worker is low. In fact, many temporary work agencies also supply additional training programs. Even though the agency worker has to commit himself to the temporary work agency for a specified period to be eligible for such a program, it is a good way of raising his education level, which will also be beneficial to him later on in life, when he is looking for permanent employment.

There is a difference in attitude towards agency work among different countries. American studies (Golden & Appelbaum, 1992; Davis-Blake & Uzzi, 1993) sometimes consider the increased use of agency workers to be a somewhat undesirable phenomenon. They are concerned that more agency workers will lead to more instability within the company. Another problem is a limited access to social benefit plans for agency workers (Polivka & Nardone, 1989; Belous 1989). Countries which have a ban on agency work obviously share this feeling. On the other hand, in a country like the Netherlands where the agency work market is heavily regulated, there are very few objections from unions, government or society in general. This has not always
Figure 1.1: Average number of agency workers per day as a percentage of the labor force, 1973-2000

![Graph showing the average number of agency workers per day as a percentage of the labor force from 1973 to 2000 in the Netherlands, France, and Germany.]

Since 1991 Germany includes both West- and East-Germany.


been the case. When temporary work agencies were just introduced in the Netherlands, there certainly were objections and doubts. However, over the years the legislation concerning agency work has developed and temporary work agencies have made the labor market more flexible. Now there is widespread acceptance. This indicates that the agency work market can function adequately as long as specific legislation is in existence. One of the problems American studies mention, is that there are no social benefit plans for agency workers. By making suitable arrangements for this and other problems agency work can safely grow. For example in the Netherlands the largest temporary work agencies have reached a collective bargaining agreement with the unions, which the government declared binding for all other temporary work agencies as well.

The popularity of agency work is increasing in many European countries. Figure 1.1 compares the developments in France, Germany and the Netherlands. These developments can be explained by changing economic and competitive conditions, firms' necessity of being flexible, high unemployment, demographic change and the consequent changes in the composition of the workforce (Carley, 1990). In the Netherlands the market for temporary work agencies is very
well developed. According to De Neubourg (1990), the reason for this phenomena is the passivity of the public labor exchange services in the field of temporary jobs. Moreover, agency work contracts provide the employer with the possibility of a longer probation period. In most countries agency workers are primarily typists, secretaries or clerks. In countries where the market for agency work is more developed, agency workers are hired to do other jobs as well. In the Netherlands there are many agency workers working in the lower skilled technical professions and in the medical sector (for example nurses, medical secretaries, etc.).

The agency work phenomenon is the result of a high degree of specialization within companies. Nowadays, it is more difficult for an employee to step in and take over from his colleague than it was a few decades ago. A solution to understaffing problems, like illness or holidays, could be to hire two people for the same job on a permanent base. This would be very costly because one of these workers would spend the majority of his time being idle. Thus, agency work is a very good medicine against structural overmanning. If there is work for only one person, one person only needs to be hired. If this person gets sick or goes on holiday, an agency worker can take his place. The agency worker is paid only for the hours worked and there are little or no firing costs involved. Due to the existence of temporary work agencies employment levels within a company can be more easily adapted to economic circumstances. During peak production a firm requires more labor input than during falling production. Personnel hired during a peak is usually no longer needed during a downturn. But firing can be expensive. In most western countries there are laws protecting permanent employees from large falls in income. Often severance pay has to paid. This is usually not the case for agency workers. In most countries agency workers can be fired with little or no firing costs. So during economic booms or seasonal peaks it is more advantageous to hire agency staff.

The international literature on the subject of agency work is limited. Some of the available literature is non-economic, for example Blanpain (1993) and ILO (1994), which discuss the legal aspects of agency work in various countries. Some literature is very dated, for example Albeda et al. (1972), Albeda (1972), Trappeniers (1975), Veldkamp & Raetsen (1972), Veldkamp (1973). Often agency work is considered just a small element in the larger framework of contingent or atypical work, for example Delsen (1995), OECD (1993a), Carley (1990), Abraham (1988), Belous (1989), Casey et al. (1989), European Commission (1996), Grubb & Wells (1993), Konle-Seidl et al. (1990), Meulders & Tytgat (1989), Polivka & Nardone (1989). There is also some Dutch literature but it mainly consists of descriptive tables based on survey data and contains no economic theory, for example De Lange & Sluiter (1994), Intomart (1987, 1980, 1981a, 1981b), Donker van Heel et al. (1992), Bokhoven & Donker van Heel (1994), ABU (2000). Specific economic literature on agency work is usually descriptive and rarely of an analytical nature, for example Roos et al. (1989), Bronstein (1991), Carey & Hazelbaker (1986),
Howe (1986), Van de Krol (1993), OECD (1993b), Williams (1989), Wierlemann (1995). Exceptions are Jaspers et al. (1988), Golden & Appelbaum (1992), Davis-Blake & Uzzi (1993) and Den Butter et al. (1996) which all contain quantitative analyses of agency work. Jaspers et al. (1988) estimate the chances of workers ending up with a specific type of labor contract (permanent, temporary, agency or call contracts) with Dutch data from 1986. They conclude that agency contracts are especially common in low skilled jobs and jobs which require little on-the-job training. They also find that the majority of workers prefer a permanent contract. Women are less likely to have a permanent job mainly due to career interruptions. Davis-Blake & Uzzi (1993) estimate the chances of firms hiring agency workers with American data from 1982. They find that large firms are less likely to hire agency workers. Firms with many jobs that require high skills or firm-specific training, are not likely to hire agency workers either. Firms do not use agency workers to reduce labor costs. Younger and older workers (but not middle-aged workers) and women are more likely to hold a temporary position. Golden & Appelbaum (1992) construct a simple labor demand and supply model for agency workers, which is estimated with monthly US data from 1982-1987. They conclude that labor costs savings and changes in product demand are the main factors influencing the increased use of agency workers. Den Butter et al. (1996) investigate whether agency work is a leading indicator for employment based on quarterly figures for the Netherlands from 1986 until 1994. They conclude that it is not.

1.5 Objective and outline

The main objective of this book is to gain insight into factors that determine

- the developments in agency work,
- the supply of agency work, and
- the demand for agency work.

To do so several econometric models are formulated and estimated, both at macro as well as micro level. In the process three types of labor will be distinguished:

- permanent work;
- temporary work;
- agency work.

Permanent work is work that is done under a permanent labor contract. Temporary work differs from permanent work in one aspect only, namely the ending date is known beforehand. Previously temporary work was referred to as short-term contracts. Temporary work does not include agency work. Permanent and temporary work are sometimes together referred to as regular work, because in both types of contract only two parties are involved: the employer and
the employee. *Agency work* is work done under an agency contract, which was defined above. Sometimes temporary contracts and agency contracts are together referred to as *temporary jobs*. When possible agency work will be compared to the other two forms of work. This book gives an account of the analyses made to reach the objective mentioned above.

Chapter 2 is concerned with the general developments in agency work. These include past and current regulation and macro-economic influences. In the field of legislation there have been many developments over the years. With the increase in popularity during the early sixties, the need arose for specific legislation in the area of agency work. Unions also became more involved resulting in a collective bargaining agreement for agency workers. However, all the legislation and regulation decreased flexibility, so new less stringent legislation came into effect in 1990 and 1999. As seen in figure 1.1 the trend in agency work is generally upwards. Many other economic time series also show a similar trend. The chapter ends with an investigation into a possible long run equilibrium between agency work and other indicators of economic performance, such as investments and unemployment.

Chapters 3 and 4 discuss the supply of agency work. This is mainly determined by the flexibility aspects of agency work and the availability of permanent jobs. Each individual weighs the advantages and disadvantages of agency work against the advantages and disadvantages of a permanent job. The advantage of agency work is that a worker has more freedom choosing working conditions that suit him. A disadvantage is the lack of security and relatively low wages. Permanent jobs provide more security and higher wages, but usually very little room for flexibility. Personal aspects also matter of course.

Chapter 3 discusses the characteristics of agency workers. It also investigates which reasons people have for choosing an agency contract over a regular contract. One critical assumption is that people decide on the number of working hours before deciding on the type of labor contract. This assumption is relaxed in chapter 4. In this chapter a formal model for the supply of agency work is formulated. In this model people are assumed to trade off their income against their spare time. Additionally choosing agency work may be an integrate part of that trade-off.

Chapter 5 presents a model for the demand for agency work and looks at the effect of the use of agency work on the efficiency of the firm. Employers weigh costs against benefits. The advantages and disadvantages of hiring agency workers are set off against the advantages and disadvantages of hiring new personnel. The advantages of hiring agency workers are low employment and firing costs and a low hiring effort. On the other hand the hiring costs may be higher because of the fee charged by the temporary work agency. Permanent workers earn higher wages and usually are entitled to some form of severance pay when fired. On the other hand they have more firm specific knowledge.
Chapter 6 investigates the employers' choice for temporary work agencies as a search channel. Each search channel has its price. But the choice of search channel is also determined by other reasons. The question answered in this chapter is: what reasons, other than cost aspects, do firms have for calling in a temporary work agency?

Finally, chapter 7 contains a summary and draws some conclusions.