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The Dutch market for agency work
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Citation for published version (APA):

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Chapter 7

Summary
And Conclusions

7.1 Introduction

In the 1980s the combination of stringent firing rules, a large number of social welfare beneficiaries and a relative high minimum wage led to a large gap between net and gross wages and high chances of getting stuck in the poverty trap. These adverse labor market outcomes induced a need for more flexible labor contracts. Contingent work and flexible working arrangements increased in popularity. An important characteristic of contingent work is a lack of attachment between the worker and the employer. In contrast to regular work it provides a low degree of job security. There is no explicit or implicit commitment for long-term employment and the minimum hours worked may vary in a non-systematic way. On the other hand contingent work is easily accessible and it provides more choice to the worker.

This study focuses on one particular form of contingent work, namely working through a temporary work agency, henceforth referred to as agency work. An agency work 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. 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.

In the Netherlands agency work is a popular form of contingent work. And its popularity is also increasing in other European countries, although the percentage of agency workers in the labor force is much larger in the Netherlands than in other European countries. This development can be explained by changing economic and competitive conditions, the firm's necessity of being flexible, high unemployment among certain groups, demographic change and the consequent changes in the composition of the workforce and changing tastes among married women (for more market work) and older males (for early retirement).

The main objective of this book was to gain insight into factors that determine
- the developments in agency work,
- agency work as a leading indicator of macro-economic trends,
the characteristics of agency workers,
the supply of agency work,
the demand for agency work, and
the temporary work agency as a search channel for firms.

Several econometric models were formulated and estimated, both at macro and micro level. In the process three types of labor were distinguished, namely permanent labor, temporary labor, and agency labor. A permanent labor contract is a contract between the employer and the employee for an indefinite period of time. A temporary labor contract is a contract between the employer and the employee for a definite period of time. An agency labor contract is a tripartite contract between the agency worker, the temporary work agency and the user company. Agency work was compared to the other two forms of work.

7.2 Developments in agency work

Legal framework

In the Netherlands the first temporary work agencies occurred in the 1940s. In 1961 the predecessor of the Algemene Bond van Uitzendondernemingen (ABU) was founded, an organization which intended to promote the interests of temporary work agencies. In 1965 legislation on temporary work agencies became effective. In 1971 the first collective bargaining agreement between unions and the ABU was negotiated. Ever since the 1965 law new rules and regulation have been drawn up to regulate temporary work agencies. These rules became an official part of the legislation in 1990.

Until 1998 temporary work agencies needed a license to operate as such. Agency workers neither had a labor contract with the temporary work agency nor with the user company. Agency workers could only work a maximum of six months for the same user company. Temporary work agencies were not allowed to prohibit agency workers to accept a regular labor contract. And agency work was not allowed in all economic sectors of the economy. Agency workers were usually not eligible for fringe benefits, like for example an additional pension. Furthermore, regular labor law did not apply to agency contracts.

Despite these restrictions agency work continued to grow. That is because temporary work agencies provided a ready-made solution to a big problem. After the second oil crisis of the Early Eighties the Dutch economy performed very poorly mainly due to an inflexible labor market. Thus more flexibility in the labor market became one of the main targets of Dutch labor market policy.
For this purpose the extensive network of temporary work agencies could be used. Temporary work agencies could immediately provide flexibility without any time consuming changes in legislation. The growing number of agency workers since 1982 was prove of the success of this approach.

However, the government became aware that agency workers needed more legal protection. Recently two new laws became effective, one in 1998 and one in 1999. The 1998 law gave more freedom to the establishment and operation of temporary work agencies, while the 1999 law provided agency workers with more security.

Since 1998 agency workers are employed by the temporary work agency. Thus they have become regular employees, and the agency contract now falls under regular labor law. Agency workers have become eligible for fringe benefits, such as additional pension plans and collective insurances. On the other hand temporary work agencies may now prevent their employees from going to another employer (that is another temporary work agency or a user company). Temporary work agencies no longer need a license. There’s no longer a limit to the term of lending out agency workers to the same user company. And agency work is now allowed in all sectors of the economy.

What remains the same is that the collective bargaining agreement of the user company overrules the collective bargaining agreement of the temporary work agencies if there are particular stipulations about agency workers in the former. Temporary work agencies may not charge a mediation fee to the agency worker for their services. And agency workers may not be used to break a strike.

One of the most important changes in the new law is that agency workers who have been working for the same temporary work agency for a long time, now have the prospect of a permanent contract. Agency workers go through four phases with increasing rights. The transition from one phase to another is determined by the number of hours within a certain time period that an agency worker works for the same temporary work agency. In the first two phases their contract is usually similar to the old agency contract. Agency workers only get paid if they are working. Once they have reached the third phase they are entitled to a temporary contract with the temporary work agency. Agency workers in phase four are entitled to a permanent contract with the temporary work agency. Thus in the third and fourth phase the agency worker becomes a regular worker of the temporary work agency.

In theory this system means a large improvement in the legal position of the agency worker. And it works as long as the economy is doing well. But there is a catch. The temporary work agencies are under no obligation to provide agency workers with a job. In practice this means that the temporary work agency can prevent an agency worker from ever reaching phase four. While there is enough work there is no reason for an temporary work agency to prevent this, but
this may change if the economy is slowing down. Thus when economic times are bad agency workers have as little security as they had under the old law.

Trends

Since 1973 figures on the average number of agency workers per day are available. These figures show that ever since the number of agency workers is increasing. Although there have been a few set backs during economic depressions, the general trend is upwards. Since 1994 the number of agency workers is booming. Since 1986 also quarterly figures on the number of agency hours are available. These figures show a clear seasonal pattern. In the first quarter the demand for agency work is at its lowest. The second and fourth quarter are approximately equal to the yearly average divided by four. But the third quarter is definitely the most profitable time for temporary work agencies.

Both investments and unemployment follow a similar pattern as agency work, where unemployment moves in opposite direction. Thus it was investigated whether an equilibrium exists between these two macro-economic variables and agency work. On an annual base there is a long term equilibrium between the number of full-time agency workers and investments from the previous year. This means that these two economic indicators follow the same path through time. Any deviations from the equilibrium are fully corrected in the next year. Because of the time lag the number of full-time agency workers is a leading indicator of investment. On a quarterly base the results are similar to the annual figures. A long term equilibrium exists between the number of agency hours and investments from two periods ago. No equilibrium exists between the number of full-time agency workers and the number of unemployed neither annually nor quarterly.

Although the existence of an equilibrium does not imply a causal relationship, there is an indirect causal relationship between investments and agency work. A rise in the demand for agency work indicates a rise in product demand. If this rise is likely to be cyclical and not seasonal the firm may wish to invest in more machines to comply with the rise in product demand. Thus there will be more investments.

7.3 The choice of labor contract

The characteristics of agency workers are inspected using a sample of about 168,000 observations from the Labor Force Surveys of 1992, 1993 and 1994 which was held by Statistics Netherlands (CBS). Theses surveys contained about 5,000 agency workers and
161,000 regular workers. The group of regular workers consists of 21,000 temporary workers and 140,000 permanent workers. The remaining 2,000 workers have a combination of two or three labor contracts.

A logit model is used to find out which characteristics influence the choice of labor contract. Because agency workers form a very small share of the total sample, the sample size for permanent workers is adjusted. The logit model is then estimated while accounting for the chances of being in the adjusted sample. An essential assumption is that people have decided on the number hours they want to work before choosing a labor contract. Thus the number of hours is one of the explanatory variables in the logit model.

Single women have the same chance of a permanent, temporary or agency contract as men, but married women have a higher chance of a contingent job (that is a temporary or agency contract). Single women usually have no other source of income to fall back on, while married women want the freedom to take on caring duties when necessary. Thus in the case of married women home production competes with market production. The growth in the labor participation rate of married women is largely due to atypical forms of work, such as temporary and agency contracts. First, they prefer contingent work because it is easier to combine with home production. Secondly, they usually have a fragmented labor market history and are thus less experienced. This makes them less eligible for permanent contracts.

It has been argued that agency work may be attractive to students because it is easier to fit agency work into a school or college timetable. This supposition was not confirmed. In fact, students often have permanent contracts and the chance that they are agency workers is smaller than the chance that they have a temporary contract. The reason is that students have a strong labor market position with good future prospects.

Non EU-residents have a higher chance of having a temporary contract and especially an agency contract. They are a difficult group to employ. Unemployment among non-EU citizens is usually higher and lasts longer than among EU-citizens. For non-EU citizens temporary work agencies are often a stepping stone towards the regular labor market (both temporary and permanent contracts) and the only way to gain job experience.

Agency workers are more interested in getting a permanent contract than temporary workers. Compared to temporary contracts the chance of an agency contracts increase with age for people under thirty. Over thirty these chances decrease with age. In general the chances of a temporary job (either a temporary or an agency contract) decrease. Probably by the time people are in their thirties most of them have the kind of contract they want to have given their options.

The conclusion is that people with a relatively weak labor market position, such as people with a fragmented labor market history and non-EU residents, have a higher chance of ending up in a contingent job. The reasons for their weak labor market position may vary, but all of them have
more difficulties in getting a permanent contract than people with a strong labor market position, such as men, singles and students.

7.4 The supply of agency work

The model for the supply of agency work contains two equations, one for the weekly supplied number of hours and one for weekly earnings. It is assumed that the choice of number of hours depends on the choice for a certain earnings level and vice versa. So the question is whether agency and regular workers make a trade-off between number of hours and earnings, or whether earnings are a consequence of the number of hours chosen. The earnings and labor supply equations are combined with an endogenous choice for agency work. In other words, do people choose their number of hours by choosing the appropriate labor contract? Hours, wages and the choice of agency work may all be endogenous. Depending on the results of exogeneity tests, OLS, 2SLS or 3SLS is used to estimate the model. The results for agency workers are compared to those for regular workers (either temporary or permanent). Because the labor supply of men differs from that of women, the model is estimated for the two genders separately.

The data used are the same as in the previous section.

Men’s labor supply does not depend on the type of labor contract. No matter what kind of contract is chosen the number of work hours is always determined by the same factors. But men do trade off hours and earnings. There are no significant differences between regular and agency workers.

Married men supply less hours, probably because they prefer to spend more time with their families. Older men also supply less hours. Obviously spare time becomes more precious and working requires more energy as you get older. Given their wages, higher educated men supply less hours. Given their education, a high wage rate makes men yearn for more hours. Furthermore, education pays off for men, even if they are agency workers.

Women trade off hours and labor contract. In other words the choice of agency contract is not independent of the choice of work hours. These two choices are determined partially by the same explanatory factors. Women do not trade off income and spare time simultaneously. The choice of earnings is made first. Once they have reached their desired level of income, further increases in income lead to a decrease in the supplied number of hours.

Older female agency workers work more than younger female agency workers. One reason may be a survivor effect. For them agency work is a more permanent state and not a transitory state. Thus they put more hours into it.
SUMMARY AND CONCLUSIONS

The difference between the supply of agency work and regular work by women is mainly determined by the wage rate, age and non-EU women. While a high wage rate induces regular working women to supply more labor, it has the opposite effect on agency women. Their spare time is valued higher than the increase in income.

Education level pays off for women with regular jobs but not for women with agency jobs. A higher education level of female agency workers leads to less earnings. Again this might be the survivor effect. The ones who can do better, eventually substitute an agency contract for a regular contract, leaving behind the ones who do not want or cannot get a regular job. These women will have, on average, a lower education, but because they are older or have been with the temporary work agency longer they earn more.

Concluding, women with an agency contract put a higher value on spare time than other women or men. For these women home production competes with market production. They like extra income, as long as it does not conflict with household or caring duties. They need flexibility to spend their time on other things than work. An agency contract provides that kind of flexibility.

7.5 The demand for agency work

With every worker a firm incurs hiring, employment and firing costs. These costs are not incidental but inherent to the labor process. Employers know this and take it into account when hiring new workers. Thus it influences the demand for labor in general and the demand for certain types of workers specifically. Different types of workers have different costs. For example, there are no firing costs involved with temporary and agency workers. As far as hiring costs are concerned much depends on the search channel used. Agency workers are hired through a temporary work agency, which demands a fee for its services. Regular workers are usually hired through other search channels. Each of these search channels have their own price tag.

A labor demand model is estimated consisting of a variable cost function and three cost share equations, one for each type of labor contract. Capital is considered to be a fixed input in the short term. There is only one output, which is the production value. The chosen form for the variable cost function is the translog function. Instead of using wages as input prices the costs of each labor contract is calculated separately. This is done by depreciating, so to speak, on the hiring, employment and firing costs. It is assumed that these costs differ for all three types of labor contract. The labor demand model is estimated using a seemingly unrelated regression model. The data come from a labor market survey among approximately 2,000 enterprises in various sectors of the Dutch economy held every two years by the Organization for Strategic Labor Market
Research (OSA). The survey is set up as a panel, but firms may drop out and new firms may enter the panel. The surveys of 1990 and 1992 were used for this analysis.

Firms with a high rate of vacancies that are difficult to fulfil also have a high share of agency workers. Apparently, these firms try to overcome the vacancy problems by hiring agency workers. On the other hand firms with an high average education level have a lower share of agency workers. This concurs with earlier findings that agency workers usually are not highly educated. The Morishima elasticity of substitution indicates that an increase in the relative cost of any labor contract leads to a substitution away from the more expensive form of labor towards the cheaper form of labor, but not enough to totally compensate the increase in costs. Except for the noncommercial services agency work is an alternative for permanent work when the costs of permanent work increase. Agency work is never an alternative for temporary work. Obviously firms see no benefit in replacing agency contracts with temporary contracts or vice versa. In industry a high staffing rate (i.e. overstaffing) implies a low share of agency workers. Obviously any temporary staff shortages can then easily be solved by moving own personnel around. In noncommercial services none of explanatory variables has any effect on the share of agency work, probably because firms in this sector employ relatively few agency workers in the period under investigation.

Thus when permanent workers become too expensive, agency workers are an acceptable alternative. On the other hand agency workers are not an alternative to temporary workers. In fact they seem to be complementary. This implies that the higher hiring costs and wages of permanent and temporary workers (compared to agency workers) are not really a problem. It is especially the prospect of high firing costs involved with permanent employees, that make firms prefer agency workers.

Another aspect of the demand for agency work is the question of efficiency. Instead of a cost function a cost frontier is estimated. The cost frontier is the set of points where, given the amount of output, minimal costs are achieved. Deviations from the cost frontier are attributed to inefficiency.

Estimation of the cost frontier shows that using agency workers does not positively affect the efficiency of firms. In general firms using agency workers are less efficient than firms not using agency workers. This is especially true for firms in industry. Moreover, their efficiency decreases with the number of agency workers. This may be explained by the fact that agency workers are in general less committed to the firm they work for and have less firm specific knowledge.
7.6 The temporary work agency as a search channel

To investigate the use of temporary work agencies as a search channel to find new personnel logit models are estimated. The logit model indicates what the chances are that firms with specific characteristics use temporary work agencies. A tobit model is used to estimate the usage intensity. The data come from two separate samples: the survey mentioned in the previous section and a survey by Intomart inquiring how firms fill vacancies. The Intomart data date from July through December 1994 and are recorded in three waves (July/August, September/October and November/December). The sample contains over ten thousand observations on firms. About 24 percent used agency workers in the two months prior to the survey. About 2,300 firms actually hired personnel in a temporary or permanent contract. Of those firms about ten percent used temporary work agencies to find these new employees.

Firm size, vacancy rate and being in the industrial sector positively influences the choice for the temporary work agency as a search channel. Firms with a high rate of vacancies that are difficult to fulfill, are less likely to use a temporary work agency. Probably these kind of vacancies are highly specialized jobs. Firm size, inflow and being in industry positively affects the usage intensity of temporary work agencies. Being in a rural area and in the non-commercial sector negatively affects the need for agency workers. The effects of the vacancy rate and the difficult vacancies on the need for agency workers are unclear. The results from the two different samples contradict each other on this subject.

When looking for regular staff temporary work agencies are a first choice search channel for large firms and firms in industry. The reasons are that hiring staff through a temporary work agency does not involve much work and that it is fast plus the fact that the candidates meet the requirements. But temporary work agencies are considered to be expensive.

Beforehand it was expected that large firms could easily solve personnel problems by moving people around. However this supposition is not confirmed. Larger firms use temporary work agencies more often than smaller firms. It may be that the fee temporary work agencies charge, is too high for most small firms. For a small firm an agency worker would weigh rather heavily on the total wage costs. Moreover small firms may look for employees more locally, which keeps the hiring costs of regular staff low.
7.7 Final notes

American studies sometimes consider the increased use of agency workers to be a somewhat undesirable phenomenon. There is some concern 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.

However, the Dutch experience has shown that by under suitable arrangements agency work can safely grow. For firms it is a good way to find temporary staff when the duration of the job does not justify intensive search or when high firing costs need to be avoided. For workers with a difficult labor market position it is a good way to gain labor market experience. For workers who have to weigh home production against market production it provides a lot of flexibility.

However, agency work comes at a cost: temporary work agencies are an expensive search channel and firms may experience a (small) loss in efficiency due to the use of agency workers. The agency worker is less committed to the firm and has less firm specific knowledge. A firm has to weigh this against the time and costs it would take to hire regular staff.

Agency work comes at a cost for workers too: less security and lower wages. Agency workers have to weigh the lack of security and lower wages against the flexibility agency work provides. Under the new agency work law agency contracts now fall under regular labor law. Thus agency workers now have the same rights as temporary and permanent workers. In theory the new law also provides agency workers with higher chances of attaining a permanent contract and thus more job security. However, since temporary work agencies determine whether an agency worker attains the required number of working hours necessary for a permanent contract, they can influence these chances negatively. Only time will tell whether agency workers will indeed achieve more job security.

The question is whether this is a good thing for the Dutch economy as a whole. Because more job security for agency workers, also means less flexibility in the labor market. And it is exactly the ability of temporary work agencies to provide the much needed flexibility that has caused the temporary work business to boom over the last two decades and agency work to contribute to reducing unemployment.

It is likely that in the future regular work and flexible work will converge towards each other. Regular work tends to become more flexible and flexible work may become more regulated. This development is nourished by demographic changes, changing tastes among married women (for more market work) and older males (for early retirement), and the European market. Since capital costs are virtually the same everywhere, EU-countries are more likely to compete on labor costs. One way to save on labor costs is to make sure that employment levels within a firm can be more easily adapted to economic circumstances. Temporary work agencies provide the means
to do so. Already, temporary work agencies are broadening their scope by including headhunting and outsourcing as a part of their activities. But temporary work agencies are also expected to play a more significant role in finding jobs for people with a difficult labor market position. As this study shows for these groups of workers temporary work agencies are the key to the labor market.