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## **Part-Time Job Growth and the Labor Effects of Policy Responses**

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# Part-Time Job Growth and the Labor Effects of Policy Responses

## Summary

The doubling of persons who usually work part-time (i.e., 1-34 hours per week) accounted for about one-fifth of employment growth since 1969. The more rapid increase in part-time versus full-time employment means that today 1 in 6 workers has a part-time schedule, up quite modestly from 1 in 7 in 1969. Thus, the predominant work schedule remains a full-time one.

The part-time labor force is comprised of those who want short schedules and those who want full-time hours. Most part-timers still work few hours by choice, despite the long-term increase in persons involuntarily employed part-time. Within the group of persons involuntarily employed part-time, there are those who usually work full-time and those who usually work part-time. The increase in involuntary part-time work has occurred among those who usually have short workweeks, which suggests that their prospect of obtaining full-time jobs has diminished over time.

One explanation for the greater use of alternative work arrangements (e.g., part-time and temporary employment) is that they enable firms to more efficiently accommodate heightened competitiveness and variability in the marketplace than if they relied on traditional (i.e., full-time, long-term) jobs. Another is that flexible work arrangements enable firms to save on labor costs, thereby making them more competitive at what some believe is the expense of workers, their families, and society. A less widely discussed explanation is the possibility of a mismatch between the fairly low skill qualifications of involuntary part-timers (e.g., welfare mothers seeking work and men displaced from high-wage factory jobs) and the heightened skill requirements of a growing share of jobs. Disagreement over the causes and consequences of nonstandard jobs is likely to continue as long as employers treat them differently from traditional jobs in terms of job security as well as compensation levels and practices.

Some advocate that policies, including the public-private safety net (e.g., unemployment insurance, social security, pension and health benefits), should be reshaped so that they no longer are tailored for traditional jobs. Among other changes, they have recommended amending the Equal Pay Act to require employers to provide equal *hourly* pay for equal work regardless of full-time/part-time status. The hourly pay disparity between part-time and full-time workers is unlikely to be much affected by such a change, however, because most of the gap is due to differences in the two group's personal and job characteristics. In addition, advocates have proposed that employers be required to provide benefits (e.g., health and retirement plans) to part-time employees. Employer mandates could produce winners and losers, however. The winners would include involuntary part-timers who obtain full-time jobs and some part-timers who gain new benefits. The losers would include part-timers who already are covered through other sources (e.g., a spouse's health plan) or who prefer higher wages over the new benefits, as well as voluntary part-timers who accept full-time jobs or drop out of the labor market due to a reduction in part-time job opportunities.

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# Part-Time Job Growth and the Labor Effects of Policy Responses

Part-time employment is one form of nontraditional work arrangements,<sup>1</sup> which have generated interest during the last few decades.<sup>2</sup> The traditional work arrangement typically is characterized as a full-time, long-term job with fringe benefits. The expansion of alternatives to the standard arrangement has prompted concern about job security as well as the adequacy of earnings levels and benefit coverage during individuals' work lives and extending into their retirement years.

Some believe that the public-private social welfare system, which includes unemployment insurance (UI) and social security as well as health and pension benefits, has not changed sufficiently to satisfactorily address the needs of the increased share of all workers with more tenuous connections to their employers and with more varied employee-employer relationships.<sup>3</sup> Initially, legislation was offered that would have narrowed the hourly wage gap between part-time and full-time workers and would have promoted benefit coverage of part-timers (e.g., H.R. 3657 and H.R. 3682 in the 104<sup>th</sup> Congress). Proposals subsequently were introduced in the 105<sup>th</sup> Congress to create a commission to study the impact of part-time employment (S. 1453) and another to study a range of labor force issues including part-time work (H.R. 2997). In the 107<sup>th</sup> Congress, interest continued in extending employer-provided health care coverage to part-time workers (S. 2639) and in enabling jobless persons seeking part-time employment to receive UI benefits (H.R. 773). Legislation concerning part-time work and UI benefit eligibility has been proposed in the 108<sup>th</sup> Congress (H.R. 1652) as well.

This report provides an overview of part-time employment, examining who and how many part-time workers there are as well as why their share of total employment has increased over time. The report analyzes the potential effect on workers were Congress to prohibit wage discrimination based on hours worked and to require

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<sup>1</sup> The terms nontraditional, alternative, nonstandard, or flexible work arrangements are used interchangeably in this report.

<sup>2</sup> In addition to part-timers, persons engaged in alternative work arrangements include employees of contract services firms, independent contractors or consultants, on-call workers, leased employees, and temporary workers. For information on temporary workers specifically see CRS Report RL30072, *Temporary Workers as Members of the Contingent Labor Force*, by Linda Levine.

<sup>3</sup> Richard S. Belous, "The Rise of the Contingent Workforce: Growth of Temporary, Part-Time, and Subcontracted Employment," *Looking Ahead*, vol. XIX, no. 1 (June 1997); and Virginia L. duRivage, ed., *New Policies for the Part-Time and Contingent Workforce* (Armonk, NY: M.E. Sharpe, 1992). (Hereafter cited as duRivage, *New Policies for the Part-Time and Contingent Workforce*.)

benefit eligibility of part-time workers. It closes by considering whether a mismatch between the qualifications of involuntary part-time workers and the heightened skill requirements of jobs might explain some of the long-term rise in part-time employment.

## Who are Part-Time Workers?

### Defining Terms

The U.S. Bureau of Labor Statistics (BLS) derives data on part- and full-time employment from the Current Population Survey (CPS). The count of part-time employment is the number of individuals working 1-34 hours a week. The count of full-time employment is the number of individuals working 35 or more hours a week. In order to reflect a worker's normal schedule rather than any aberration during the survey week, respondents are asked whether they *usually* work 1-34 hours (in which case they are classified as part-time workers) or *usually* work at least 35 hours (in which case they are classified as full-time workers).

Because the statistics are obtained from a survey of households rather than of firms, the figures relate to part-time and full-time *workers* not jobs. It is thus possible for individuals who hold multiple jobs, one of which is part-time, to be classified as full-time workers if their hours total at least 35. As a result of the major revision to the CPS implemented in January 1994, information has become available on the prevalence of people holding multiple jobs and their usual hours in those jobs.<sup>4</sup> According to BLS, the trend in part-time employment (which is examined shortly) would be little changed based on a count of jobs rather than of workers.

Other changes made to the CPS in 1994 affect the consistency over time of the part-time/full-time data series. The changes' impact on trends are noted where appropriate in the following pages.

Some individuals who work on a part-time basis choose to do so while others would prefer longer hours. The former are often referred to as *voluntary* part-time workers. They elect to work 1-34 hours per week for what BLS considers to be *noneconomic* reasons, including problems arranging child care, other family or personal obligations, health or medical limitations, in school or training, retired or social security limit on earnings, vacation or personal day, legal or religious holiday,

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<sup>4</sup> In 2002, 7.3 million workers moonlighted (i.e., held more than one job). The most common form of multiple jobholding involved full-time workers with a second part-time job (3.9 million). Almost 1.6 million workers held primary and secondary jobs with each being part-time, and 856,00 of these workers were employed at least 35 hours on their part-time jobs combined. Another 1.2 million individuals who worked a full-time week held two jobs, one of which had variable hours. Thus, 6 million workers who held one or more part-time jobs were classified as full-time workers because the combined work week from those jobs totaled at least 35 hours. Part-time jobholders with full-time schedules more often are prime-age workers (25-54 year olds) and married men compared to either group's prevalence among "official" part-time workers.

and weather-related curtailment. The latter are often referred to as *involuntary* part-time workers or as being employed part-time for *economic* reasons. They work less than 35 hours a week due to slack work or business conditions, could only find part-time work, seasonal work, and job started or ended during survey week.

## Their Demographic Breakdown

Women of all ages, younger (16-24) and older (at least 55) men, as well as white workers make up larger shares of workers voluntarily employed part-time than of all workers. (See **Table 1.**) Voluntary part-timers in 2002 had an average work week of 21.4 hours. Individuals most often gave “in school or training” and “other family or personal obligations” as their reason for choosing part-time hours.<sup>5</sup> Women continue to disproportionately opt for part-time schedules, which probably reflects their efforts to accommodate family responsibilities; however, they have become increasingly less likely over time to choose part-time employment. In contrast, the rate of voluntary part-time employment has increased for younger and older male workers.<sup>6</sup>

In contrast, young women (16-34 years old) and men (16-24 years old) as well as black workers are over represented among involuntary part-timers regardless of whether they are usually employed 1-34 hours or a minimum of 35 hours a week.<sup>7</sup> Over time, however, the incidence of involuntary part-time schedules among prime-age men (25-54) usually employed part-time has risen more so than among women.<sup>8</sup> Economic part-timers average a longer work week, at 23.0 hours in 2002, compared to voluntary part-timers. Among persons employed part-time for economic reasons, those who usually work full-time report longer hours (24.1) compared to those who usually work part-time (22.3). The most frequently offered reason for being involuntarily employed part-time in 2002 was “slack work or business conditions,” but in more robust periods of economic growth, it more often is “could only find part-time work.”<sup>9</sup>

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<sup>5</sup> BLS, *Employment and Earnings*, June 2003, Table 20.

<sup>6</sup> Thomas Nardone, “Part-Time Employment: Reasons, Demographics, and Trends,” *Journal of Labor Research*, vol. 16, no. 3 (summer 1995). (Hereafter cited as Nardone, *Part-Time Employment*.)

<sup>7</sup> An example of someone who usually is employed full-time but works part-time for economic reasons is a construction worker who had only three 10-hour days of work in a week because one job ended and another had not yet begun.

<sup>8</sup> Nardone, *Part-Time Employment*.

<sup>9</sup> BLS, *Employment and Earnings*, Jan. 2003, Table 20.

**Table 1. Percent Distribution of All Employed Persons and of Persons Employed Part-Time, by Demographic Characteristic, 2002**

Characteristic	Total employed	Voluntary part-time	Involuntary part-time		
			Total	Usually work full-time	Usually work part-time
<b>Total</b>	100.0%	100.0%	100.0%	100.0%	100.0%
16-19	4.6	19.7	11.1	8.3	11.3
20-24	9.8	15.3	19.2	18.3	19.2
25-34	22.2	14.1	23.2	23.7	23.2
35-44	25.8	16.6	20.9	20.1	21.0
45-54	22.9	13.8	16.3	18.3	16.2
55+	14.6	20.6	9.1	11.2	8.9
<b>Men</b>	53.4	30.9	45.2	47.3	45.1
16-19	2.3	8.9	5.5	4.7	5.6
20-24	5.1	6.2	9.4	8.3	9.4
25-34	12.1	3.0	10.5	11.2	10.4
35-44	13.9	2.2	8.9	9.5	8.9
45-54	12.0	2.3	6.3	8.3	6.2
55+	7.6	8.3	4.5	5.3	4.5
<b>Women</b>	46.7	69.0	54.8	52.1	54.9
16-19	2.3	10.7	5.6	3.6	5.7
20-24	4.7	9.1	9.8	9.5	9.8
25-34	10.1	11.1	12.7	12.4	12.8
35-44	11.9	14.4	12.0	11.2	12.1
45-54	10.9	11.5	9.9	10.1	9.9
55+	6.7	12.3	4.6	5.3	4.5
<b>White</b>	83.5	87.2	77.4	82.8	77.1
<b>Black</b>	10.9	7.9	16.2	11.2	16.5

Source: Table created by CRS from BLS data.

## The Trend in Part-Time Employment

The doubling of persons who usually work part-time — from 11.3 million in 1969 to 23.0 million in 2000 — accounted for one-fifth of employment growth during the 30-year period. (See **Table 2.**) The more rapid increase in part-time (104%) than in full-time (71%) employment means that 1 in 6 workers had a part-time schedule in 2000, up quite modestly over the past few decades from 1 in 7 in 1969. The predominant work schedule thus remains a full-time one.

**Table 2. Employed Persons by Full-Time and Part-Time Status During Peak Years of the Business Cycle**

Year	Total	Full-time <sup>a</sup>	Part-time	Part-time for economic reasons <sup>b</sup>	Total	Full-time <sup>a</sup>	Part-time	Part-time for economic reasons <sup>b</sup>
	(Numbers in thousands)				(Percent distribution)			
1969	77,902	66,596	11,306	2,056	100%	85.5%	14.5%	2.6%
1979	98,824	82,654	16,171	3,577	100%	83.6%	16.4%	3.6%
1989	117,342	97,369	19,973	4,894	100%	83.0%	17.0%	4.2%
2000	136,891	113,846	23,044	3,227	100%	83.2%	16.8%	2.4%

**Source:** Table created by CRS from BLS data.

**Note:** Data for 1994 and subsequent years are not directly comparable with data for 1993 and earlier years due to a major redesign of the CPS.

<sup>a</sup> Before 1994, the full-time total includes persons usually employed 1-34 hours but who worked 35 or more hours during the reference week. From 1994 forward, such persons are included in the part-time total.

<sup>b</sup> Includes individuals employed 1-34 hours for economic reasons, who usually work part-time and who usually work full-time schedules. Thus, persons employed part-time for economic reasons are *not* a subset of all part-time workers (i.e., persons who usually work 1-34 hours regardless of reason).

The pace of part-time employment growth appears to have slowed during the period under observation. This trend might be related to the heightened commitment of women to the labor force, as reflected in their decreased propensity to leave full-time jobs and their increased propensity to move from part-time jobs or nonparticipation to full-time jobs.<sup>10</sup>

### Voluntary Part-Time Employment

Most part-timers — about 4 in every 5 — choose short workweeks. In 2002, for example, BLS data show that 18.9 million out of 23.8 million part-time workers opted for less than 35 hours of work per week on average.

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<sup>10</sup> Donald R. Williams, “Women’s Part-Time Employment: A Gross Flow Analysis,” *Monthly Labor Review*, Apr. 1995.



Although the share of voluntary part-time workers decreased in the 1970s (from 85.4% in 1969 to 79.7% in 1979) and then edged further downward in the 1980s (to 77.1% in 1989), the trend may have reversed more recently (rising to 81.6% in 2000). Some portion of the turnaround in the 1990s reflects changes in the CPS questionnaire which, among other things, was reworded to make it easier to determine whether noneconomic/voluntary or economic/involuntary factors affected the length of respondents' workweeks.<sup>11</sup> Voluntary part-timers as a share of all part-timers jumped from 72.1% in 1993, based on the old questionnaire, to 75.7% in 1994 when the revised questionnaire was introduced. Since this large 1-year jump, the incidence of voluntary part-time employment has continued to rise but at a more modest pace.

## Involuntary Part-Time Employment

The major story behind the increase over time in part-time employment concerns those who work part-time but would prefer full-time hours. Once the business-cycle effect<sup>12</sup> is eliminated by focusing on peak years of economic activity, it becomes clear that involuntary part-time work has grown over the long run. As shown in **Table 2**, all persons employed part-time for economic reasons numbered more than 3.2 million in 2000, which is about 1½ times the 1969 level. Involuntary part-time employment accounted for 2.6% of total employment in 1969. The proportion subsequently rose, with a larger increase occurring in the 1970s than 1980s. The involuntary part-time employment rate subsequently fell to 2.4% in 2000, with the seemingly reduced incidence partly due to the aforementioned CPS revision.<sup>13</sup>

The long-term increase in involuntary part-time employment has occurred among those who usually have short workweeks. As presented in **Table 3**, less than one-half of persons employed part-time for economic reasons in 1969 usually worked part-time. The share grew substantially during the 1970s and continued to expand,

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<sup>11</sup> Nardone, *Part-Time Employment*.

<sup>12</sup> In 1979, at the peak of a business cycle, persons involuntarily employed less than 35 hours per week totaled almost 3.6 million. A few years later, around the time of the 1981-1982 recession, their number climbed to 6.3 million. After tapering off during the 1980s recovery, the level turned up again — reaching 6.5 million — following the 1990-1991 recession. The influence of cyclical fluctuations in aggregate demand on those unable to get as many hours of work per week as they would like is evident from this pattern and demonstrated empirically in Ronald A. Ratti, "Involuntary Part-Time Employment: Cyclical Behavior and Trend Over 1968-1987," *Economic Letters*, 1991.

<sup>13</sup> Between 1993 and 1994, when the revised questionnaire was implemented, the number of part-timers who preferred longer hours dropped from 6,481,000 to 4,625,000, which could result in at least a 1 percentage point decrease in the involuntary employment rate. Note: Before the 1994 CPS revision, interviewers inferred whether persons employed part-time for economic reasons wanted and were available for full-time jobs. From 1994 onward, respondents have been asked explicitly about their desire and availability for full-time work. "[T]he reduced number of involuntary part-time employees results almost entirely from the direct question about desire for full-time work; the question on availability has little affect." Nardone, *Part-Time Employment*, p. 289.

but at a considerably diminished pace, during the 1980s. While the share declined during the 1990s, it remains well above its 1969 level. The data suggest that the prospect of moving from part-time to full-time employment has diminished over the years, thereby making part-time work a more permanent status for those who would prefer full-time work.

**Table 3. Employed Persons by Reason for Working Part-Time during Peak Years of the Business Cycle**

(numbers in thousands)

Persons at work <35 hours per week	1969		1979		1989		2000	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Part-time for economic reasons	2,056	100.0	3,577	100.0	4,894	100.0	3,227	100.0
Usually work part time	963	46.8	2,102	58.8	3,164	64.7	1,894	58.7

**Source:** Table created by CRS from BLS data.

**Note:** Data for 1994 and subsequent years are not directly comparable with data for 1993 and earlier years due to a major redesign of the CPS.

<sup>a</sup> Total who usually work part time includes those usually employed 1-34 hours per week but (1) who were absent from work for the entire reference week or (2) for 1994 and after, who worked 35 or more hours during the reference week. As these groups are not shown separately, the sum of the parts is less than the total.

## Reasons for the Growth in Involuntary Part-Time Employment

The long-run increase in part-time employment has occurred among those who want to work full-time hours, which likely means that demand has outpaced the supply of voluntary part-time workers. Therefore, explanations of the trend typically have focused on the demand side, that is, on employers' motivation for favoring part-time over full-time job creation.

The changing economy is one explanation commonly offered for business' greater use of nontraditional work arrangements, including part-time and temporary workers, leased employees, and employees of contract services firms. Such factors as deregulation and internationalization of product markets, it is asserted, have made the marketplace increasingly competitive and variable. Some contend that combining different work arrangements allows firms to more efficiently accommodate changing or fluctuating patterns of demand for goods and services than if they relied solely on traditional (full-time, long-term) jobs. Greater flexibility in staffing has been achieved through such strategies as maintaining a core workforce augmented by (1)

calling on workers directly or through temporary agencies when production must be increased to fill the more sporadic orders of customers who no longer want to maintain sizeable inventories, and by (2) scheduling part-time workers to ensure coverage during store hours which have been extended to meet the needs of today's dual-earner families.

Another leading explanation for the increase in alternative work arrangements is labor cost minimization. The source of lower costs is twofold: from reduction in paid non-productive time (i.e., having "just-in-time employment" rather than a constant staff level over the course of a day, week, or year) and from the relatively low wages and limited benefits of nonstandard jobs. Some oppose the creation of a workforce variously described as two-tiered, disposable, or marginal which they believe depresses morale due to unequal treatment of employees and dampens productivity growth due to reduced employer-provided training as well as diminished reasons to innovate. In their view, the increased competitiveness of U.S. firms achieved through the proliferation of flexible work arrangements has come — literally — at the expense of workers and, ultimately, of society to the extent that more individuals rely on public assistance (e.g., welfare and medicaid) because of the "low quality" of nontraditional jobs.

A less widely discussed explanation concerns the skill composition of involuntary part-time workers and the nature of job growth. With many more jobs today than in the recent past requiring fairly high educational attainment (i.e., at least some postsecondary schooling), employers may have found that a growing share of workers do not possess the skill levels they are seeking to fill full-time long-term positions. In other words, persons involuntarily employed part-time might have been on the rise over the long run because of a mismatch between their qualifications and the requirements of many "high quality" job opportunities. For the same reason, firms may not have converted as many part-time to full-time jobs as might have been expected during the tight labor markets that prevailed in the late 1990s.

## **Job Growth by Industry**

The greater incidence of part-time work might be related to above-average job growth in industries that have historically relied on part-time workers or to an increased rate of part-time scheduling within industries. The former explanation reflects shifts in customer demand for goods and services among industries, and hence, in the industrial distribution of employment. The latter (within-industry) explanation reflects a change in the staffing strategy of firms, which might be motivated by either labor flexibility or labor cost considerations.

Rapid employment gains in industries that are historically heavy users of part-time workers were estimated to account for the entire increase in the ratio of part-time to full-time employment during the 1980s and into the early 1990s.<sup>14</sup> Part-time intensive industries include services (e.g., business and repair, personal, medical

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<sup>14</sup> Chris Tilly, *Half a Job: Bad and Good Part-Time Jobs in a Changing Labor Market*, (Philadelphia, PA: Temple University Press, 1996). (Hereafter cited as Tilly, *Half a Job*.); and Nardone, *Part-Time Employment*.

excluding hospitals, and professional); retail trade; and finance, insurance, and real estate. Thus, it appears that the differential rate of job growth across industries — which reflects nothing more invidious than changing consumer demand for goods and services — has fueled the growth of part-time employment since 1980.

During the 1970s, however, the increased rate of part-time employment within industries did account for a substantial share of the heightened incidence of part-time employment.<sup>15</sup> The retail trade and services industry groups in particular stepped up their hiring of part-time as compared to full-time workers in this decade.

Taken together, these findings suggest firms had changed their internal staffing strategies and achieved what they consider to be a more efficient mix of part-time and full-time jobs by 1980. But, debate about whether labor flexibility or labor costs motivated the higher ratio of part-time to full-time jobs, and about the consequences of alternative work arrangements, is likely to continue as long as “standard and nonstandard jobs [do not pay] similar wages to people with similar characteristics, [do not] provide ... equal fringe benefits, [do not] allow ... equal opportunity for career advancement ladders, and [do not] provide ... an equivalent level of job security.”<sup>16</sup>

## The Part-Time/Full-Time Wage Gap

The wages of part-timers are lower than those of full-timers, but the size of the gap has been fairly stable for decades. While the growth in the part-time/full-time wage gap thus cannot explain the upward trend in involuntary part-time employment, the gap’s very existence might have induced firms to increase their relative use of part-time workers.<sup>17</sup>

In 2003, private sector firms paid part-time employees 45% less than full-time employees. The former earned \$9.96, and the latter \$18.02, per hour worked.<sup>18</sup> However, the hourly wage gap neither accurately reflects the cost savings employers might gain by using part-time rather than full-time workers, nor the pay disadvantage part-timers might suffer solely from working short hours. “Much of the pay discrepancy between full-time and part-time workers can be attributed to who they are and what jobs they hold,”<sup>19</sup> that is, to variations in the distribution of part-time and full-time workers across demographic, occupational, and industrial groups.

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<sup>15</sup> See Tilly *Half a Job*, and Nardone, *Part-Time Employment*.

<sup>16</sup> Economic Policy Institute (EPI) and Women’s Research & Education Institute (WREI), *Nonstandard Work, Substandard Jobs*, (Washington, D.C.: EPI, 1997), p. 5. (Hereafter cited as EPI and WREI, *Nonstandard Work*.)

<sup>17</sup> Tilly, *Half a Job*.

<sup>18</sup> BLS, “Employer Costs for Employee Compensation — March 2003,” news release, June 11, 2003. (Hereafter cited as BLS, *Employer Costs for Employee Compensation*.)

<sup>19</sup> Sar A. Levitan and Elizabeth A. Conway, “Part-Timers: Living on Half-Rations,” *Challenge*, May-June 1988, p. 13. See also Marvin Kosters and Deirdre McCullough, “Does Part-Time Work Pay?,” *The American Enterprise*, Nov.-Dec. 1994.

The results of empirical studies confirm that differences other than hours worked account for the great majority of part-time workers' relatively low hourly pay. Once they are taken into account, the wage gap between the two groups narrows substantially. After adjusting for compositional differences in sex, race, education, and experience between part-timers and full-timers, one analysis estimated that the former earned 29% less than the latter. When the concentration of part-time workers in low-paid industries and occupations was taken into account as well, the gap narrowed further to perhaps 10%.<sup>20</sup> A negative relationship also was discerned between part-time status and earnings in 40 out of the 46 industries analyzed individually in another study. After controlling for human capital and several other factors known to influence wages, the adjusted wage gap averaged about 13%.<sup>21</sup> A third study found that "regular" part-time status depressed the hourly wage of women by 5%, and men by 10%, compared to full-time workers with similar personal and job characteristics.<sup>22</sup>

The unexplained portion of the pay differential between part-time and full-time workers reflects some combination of unmeasured, unmeasurable or imprecisely specified variables and wage discrimination based on hours worked. Because selection bias<sup>23</sup> could affect estimation of the adjusted hourly wage gap, one analysis developed a model to correct for it. After making this correction, the study found that part-time status did not depress the wages of women generally, but women involuntarily employed part-time and all male part-timers did incur an hourly wage penalty.<sup>24</sup>

The small adjusted wage gap indicates that differences in hourly rates of pay for part-time and full-time workers are responsible for little of the earnings disparity between the two. Expansion of the current federal requirement under the Equal Pay Act of 1963, that firms provide equal pay for equal work, to equal *hourly* pay for equal work might thus have less impact on part-timers' wage and retirement income levels than anticipated by those who have supported such a proposal.

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<sup>20</sup> John D. Owen, *Working Hours: An Economic Analysis*, (Lexington, MA: D.C. Heath and Company, 1979). (Hereafter cited as Owen, *Working Hours*.)

<sup>21</sup> Ronald G. Ehrenberg, Pamela Rosenberg and Jeanne Li, "Part-Time Employment in the United States" in Robert A. Hart, ed., *Employment, Unemployment and Labor Utilization*, (Boston, MA: Unwin Hyman, Inc., 1988). (Hereafter cited as Ehrenberg, et al., *Part-Time Employment*.)

<sup>22</sup> EPI and WREI, *Nonstandard Work*. Note: "Regular" part-time employment in this analysis means employees who worked less than 35 hours *and* who were not in any other nonstandard work arrangement.

<sup>23</sup> In the instant case, selection bias would occur if individuals choose to enter the labor force or choose part-time over full-time jobs due to factors that are not explicitly accounted for in the estimation procedure and that affect wages independently of part-time status.

<sup>24</sup> Rebecca M. Blank, "Are Part-Time Jobs Bad Jobs?" in Gary Burtless, ed., *A Future of Lousy Jobs?* (Washington, D.C.: The Brookings Institution, 1990). (Hereafter cited as Blank, *Are Part-Time Jobs Bad Jobs?*) Note: The EPI and WREI analysis in *Nonstandard Work* takes a different approach to adjust for potential systematic differences between part-time and full-time workers not explicitly included in the estimation procedure. It found that selection bias accounts for only a small portion of the part-time/full-time wage gap.

Because of the number of women in the part-time labor force as well as the number of part-time employees in relatively low-paid female-dominated occupations, adoption of comparable worth as national policy has sometimes been advocated in connection with the part-time worker issue.<sup>25</sup> (Comparable worth would extend the current equal pay mandate to equal pay for *equivalent* jobs within a firm.) Similarly, the considerable representation of women and youth among both part-time and relatively low-paid workers has made raising the federal minimum wage another policy option sometimes mentioned in connection with the part-time worker issue.<sup>26</sup>

## Employment-Based Benefits

Over the years, employer costs for employee benefits have grown substantially. Employer contributions for legally required social insurance<sup>27</sup> rose from \$100 million in 1929, into billions of dollars following enactment of social security and other Depression-era programs. Employer payments for mandated benefits have continued to increase over the years, according to U.S. Department of Commerce data, as both the labor force grew and Congress expanded coverage, raised wage ceilings, and increased tax rates. With employer expenditures on discretionary benefits (e.g., vacation, holiday, and sick leave; rest periods; pension and profit-sharing plans; and health, disability, and life insurance) also increasing, total employee benefit costs topped \$1 trillion by 1990.<sup>28</sup>

With the rate of benefit increases often exceeding that of wage increases over time, non-wage compensation today consumes a greater share of employers' total labor costs. Most recently, the employer portion of benefit expenses comprised 27.8% of total compensation for employees in the private sector: discretionary benefits accounted for 19.4% and mandated benefits, 8.4%, of total compensation costs at private sector firms in 2003.<sup>29</sup>

**Differences in Receipt and Cost of Benefits.** Higher quasi-fixed labor costs are expected to lead firms to *reduce* their demand for part-time compared to

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<sup>25</sup> For information on the potential labor market impact of this policy see CRS Report 98-278, *The Gender Wage Gap and Pay Equity: Is Comparable Worth the Next Step?*, by Linda Levine.

<sup>26</sup> For information on the labor market effect of the federal minimum wage see Susan N. Houseman, "The Effects of Employer Mandates" in Richard B. Freeman and Peter Gottschalk, eds., *Generating Jobs: How to Increase Demand for Less-Skilled Workers*, (N.Y.: Russell Sage Foundation, 1998). (Hereafter cited as Houseman, *The Effects of Employer Mandates*.)

<sup>27</sup> These payments represent employer contributions to federal funds (i.e., old-age, survivors, disability, and hospital insurance; unemployment insurance; federal employee and railroad retirement; veterans' life insurance; military medical insurance; and workers' compensation) and to state/local funds (i.e., state/local employee retirement, temporary disability insurance, and workers' compensation).

<sup>28</sup> U.S. Chamber of Commerce, *Employee Benefits*, (Washington, D.C.:U.S. Chamber Research, 1991).

<sup>29</sup> BLS, *Employer Costs for Employee Compensation*.

full-time workers. Employers incur certain costs for each employee regardless of the number of hours the employee works (e.g., for health and other insurance; mandated benefits with low wage ceilings; and recruitment, supervision, and training); they are per-employee (fixed) rather than per-hour (variable) costs. All else being equal, higher fixed labor costs make it relatively less expensive for firms to employ full-time workers because per-employee expenditures are spread over more hours or recouped more quickly in the case of training for example.<sup>30</sup> More specifically, unless benefits can be prorated based on hours worked or earnings, part-timers *who receive benefits* will cost firms *more* per hour to employ than full-timers.

However, part-time employees less often have access to or are eligible for participation in employer benefit plans than are full-time employees. Many fewer part-timers than full-timers in the private sector have access to paid leave (e.g., for holidays, jury duty, military service, and vacations).<sup>31</sup> If firms offer health or pension benefits to their employees, employees who work fairly few hours may find it difficult to meet length of service requirements or may be legally excluded from coverage.<sup>32</sup> When part-timers are eligible, the amount of the firm's contribution may be based on hours worked or earnings which might make the employee's contribution sufficiently expensive to cause them to forgo coverage. Other eligible part-timers might opt not to participate because they already are covered through other sources. For these various reasons, only 18% of part-time employees compared to 58% of full-time employees in the private sector participated in their employers' retirement plans in 2003; for participation in medical care benefits, the proportions were 9% and 56%, respectively.<sup>33</sup>

Factors other than part-time status cannot fully explain the difference in discretionary benefit receipt between part-time and full-time workers. After taking into account such variables as age, education, firm size, occupation, and union status, part-timers remain significantly less likely than full-timers to receive employer-

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<sup>30</sup> Owen, *Working Hours*. Note: One analysis challenges the long-held conception that many voluntary benefits (e.g., paid leave and pensions) represent quasi-fixed costs. It concludes that only health insurance is, at least in part, a fixed cost of employment. See Michael K. Lettau, "Comparing Benefit Costs for Full- and Part-Time Workers," *Monthly Labor Review*, Mar. 1999.

<sup>31</sup> BLS, "Employee Benefits in Private Industry, 2003," new release, Sept. 2003. (Hereafter cited as BLS, *Employee Benefits in Private Industry*.)

<sup>32</sup> Federal law requires that only part-time employees who work more than 1,000 hours per year (i.e., about 20 hours per week) must be covered under a firm's pension plan. See earlier pages of this report for the *average* weekly hours of part-time workers.

<sup>33</sup> BLS, *Employee Benefits in Private Industry*.

sponsored health or pension benefits and leave.<sup>34</sup> Involuntary part-timers are even less likely to receive health or pension benefits from their employers.<sup>35</sup>

The lower incidence of benefit receipt by part-time workers generally has made them less expensive to employ than full-time workers. In 2003, for example, part-timers cost private sector employers an average of only \$2.45 in benefits per hour worked, while full-timers cost an average of \$7.36.<sup>36</sup> Benefits added 25% to the average hourly wage costs of part-time workers at private firms. They added a considerably higher 41% to the average hourly wage of full-time employees. By increasing the ratio of part-time to full-time workers on their payrolls, firms have been able to minimize the increase over time in benefit expenditures and likely contributes to employers' decision to use part-time and other flexible staffing arrangements.<sup>37</sup>

### **The Labor Market Effect of Mandating Workplace Benefit Coverage.**

Given the growth of part-time and other nonstandard work arrangements, some advocate that policies need to be reshaped so they no longer are tailored for full-time, long-term jobs with benefits. The extension of the public-private social safety net to nontraditional jobholders has been urged by some as a humane means of easing the adjustment from a more rigid to a more flexible work environment.<sup>38</sup> One analyst has commented that "Although economists tend to focus on efficiency grounds for employer mandates, achieving equity is arguably the more important political motivation for legislating employer mandates."<sup>39</sup>

Economic theory suggests that requiring work-based benefit provision for part-time employees could adversely affect their wages or employment. Unless firms covered by the mandate could trade-off the benefit increase against a wage decrease, so that their compensation costs do not rise, the aggregate demand for part-time labor is expected to fall.

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<sup>34</sup> Bernard E. Ichniowski and Anne E. Preston, "New Trends in Part-Time Employment," *Proceedings of the Thirty-Eighth Annual Meeting of the Industrial Relations Research Association*, Dec. 28-30, 1985; and Ehrenberg, et al., *Part-Time Employment in the United States*.

<sup>35</sup> Blank, *Are Part-Time Jobs Bad Jobs?*.

<sup>36</sup> BLS, *Employer Costs for Employee Compensation*. Note: Because of the lower prevalence of benefit coverage among part-time than full-time workers, the series tends to overstate the benefit cost gap between the two.

<sup>37</sup> Susan N. Houseman, "Why Employers Use Flexible Staffing Arrangements: Evidence from an Establishment Survey," *Industrial and Labor Relations Review*, vol. 55, no. 1 (Oct. 2001).

<sup>38</sup> In addition to proposals requiring that firms or the government provide certain benefits to part-time workers, other suggested changes include lowering the annual hours threshold for coverage under the Family and Medical Leave Act, pension portability, and changing the unemployment compensation system so that workers with low earnings or who are seeking part-time work are more often eligible. See duRivage, *New Policies for the Part-Time and Contingent Workforce*; and EPI and WREI, *Nonstandard Work*.

<sup>39</sup> Houseman, *The Effects of Employer Mandates*.



Whereas it might be supposed that employers will respond to legislated augmentation of mandatory benefits by reducing the wages of all employees to compensate for the added burden, our findings suggest that part of their response might be, instead, to reduce their hiring of part-time workers. If they do, the labor market for those seeking part-time employment will shrink.<sup>40</sup>

**Wages.** Statutorily set minimum wage rates might constrain how much firms can cut or slow the growth rate of part-time workers' wages in response to a benefit mandate. Employers would be able to offset little, if any, of the benefit increase through a pay cut if part-timers' wages were close to the minimum wage. The smaller the gap between minimum and part-time wages, the greater the likelihood that firms would adjust to a benefit requirement by curbing part-time employment.<sup>41</sup> As benefit mandates, both those in effect (e.g., the Family and Medical Leave Act) and those that have been offered (e.g., health care proposals during the Clinton Administration), typically exempt some part-timers, it is likely that employers will "shift low wage workers from work schedules just above the mandated hours threshold to just below it, in order to avoid the cost of the mandate."<sup>42</sup>

If employers were able to lower the wages of part-time workers to compensate for the increase in benefits, then the economic well-being of some part-timers would suffer. As previously noted, many workers who do not have health benefits through their part-time jobs are insured through other sources; if their wages were reduced, they would not experience any attendant gain from the benefit requirement. Other part-time workers might not value the additional benefits as much as they value their forgone wages. In this case, as well, the imposition of a benefit package would diminish the workers' economic well-being.<sup>43</sup>

**Employment.** A reduction in part-time jobs might have the salutary effect of bringing demand closer to the supply of voluntary part-time workers. Firms could maintain their level of output by employing more full-time workers whom the benefit mandate has made less expensive to use. The opportunity then would increase for involuntary part-timers to obtain the full-time jobs they prefer. Alternatively, firms in some instances could substitute capital for the now more costly labor input and consequently cutback their total employment.

The extent to which imposition of a workplace benefit mandate increases the relative cost of utilizing part-time workers would depend on whether firms must make the same payment for each employee regardless of hours worked or earnings level. If the employer's contribution is a fixed (per-employee) sum, the mandate

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<sup>40</sup> Mark Montgomery and James Cosgrove, "The Effect of Employee Benefits on the Demand for Part-Time Workers," *Industrial and Labor Relations Review*, vol. 47, no. 1 (Oct. 1993), p. 96.

<sup>41</sup> Olivia S. Mitchell, "The Effects of Mandating Benefit Packages" in Laurie J. Bassi and David L. Crawford, eds., *Research in Labor Economics*, vol. 11, (Greenwich, Conn.: JAI Press Inc., 1990). (Hereafter cited as Mitchell, *The Effects of Mandating Benefit Packages*.)

<sup>42</sup> Thomas C. Buchmueller, "Fringe Benefits and the Demand for Part-Time Workers," *Applied Economics*, vol. 31 (1999).

<sup>43</sup> Mitchell, *The Effects of Mandating Benefit Packages*.

would increase the total compensation of part-timers by a larger percentage than if the contribution varied by total wages or hours worked. While the costlier approach would be more likely to open up full-time jobs for involuntarily employed part-timers, it also could so reduce part-time demand that those who want jobs with short workweeks are unable to get them. As the vast majority of part-timers prefer short schedules, “many of them would be worse off if forced to transfer into a permanent full-time job” or to drop out of the labor force.<sup>44</sup> Alternatively, the less expensive approach might result in low levels of retirement income, little accumulated leave to care for oneself and dependents, or few additional part-time workers with health insurance because they could not afford their share of the premium.<sup>45</sup>

Imposition of a work-based benefit requirement also could change labor costs across groups of workers and affect their job opportunities in unintended ways.<sup>46</sup> Women and older workers are two large components of the part-time labor force. If, for example, firms had to extend health benefits to their part-time employees and they believe that coverage of women and older part-timers would raise group premiums, firms might replace them with part-timers thought to be lower risks (e.g., 16-24 year olds).

## **Underemployment and a Skill Mismatch**

Involuntary part-time employment is of concern to some observers not only because “lost” hours impose a cost on workers and their families in terms of forgone compensation, but also on the economy in terms of forgone production of goods and services. Just as unemployment is one measure of the underutilization of human resources, so too is involuntary part-time employment.

The long-run increase in workers supplying fewer hours of labor per week than they wish means that the extent of underemployment or partial unemployment has spread. Even more so than in the past, then, it could be argued that the official unemployment rate overstates the degree of tightness in the labor market. According to this perspective, there is more room for output and employment growth without accelerating inflation than is apparent from the level of the unemployment rate.

In light of the scarcity of labor that existed not too long ago, some have wondered why firms did not take greater advantage of these underutilized workers and offer more of them the full-time hours they want. Perhaps there is something on the supply side, rather than the demand side, that makes workers involuntarily employed part-time less-than-attractive candidates for full-time jobs. Indeed, according to one empirical analysis, the expansion of the 1990s produced an inconsequential decrease in involuntary part-time employment compared to the expansion of the 1980s. The researcher suggests that firms might have become more reluctant to hire from the pool of economic part-timers because of its altered

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<sup>44</sup> Rebecca M. Blank, “Contingent Work in a Changing Labor Market,” in Freeman and Gottschalk, *Generating Jobs*, p. 285.

<sup>45</sup> Mitchell, *The Effects of Mandating Benefit Packages*.

<sup>46</sup> *Ibid.*

composition: “state and local welfare reforms in the mid-1990s disproportionately increased the supply of low-skilled females who desired to work more hours” and the United States experienced a “relative surge in legal and illegal immigration” during the decade; that is to say, those who remained involuntarily employed part-time despite the extremely tight labor market that characterized the late 1990s “may have been more likely to possess inferior characteristics (or firms had the perception that these were lower-quality workers).”<sup>47</sup>

As shown in **Table 4**, relatively more workers involuntarily employed part-time have not completed high school compared to either persons voluntarily working part-time or persons in full-time jobs. This “suggests that their inability to get as much work as they desire may be due to a lack of skills rather than simply a lack of full-time jobs.”<sup>48</sup> Given the disparity in skill composition and the greater benefit costs that firms could incur were they to switch workers from part-time to full-time schedules, employers might prefer to cope with short-run tightness in the labor market by lengthening the hours of full-time employees already on their payrolls.<sup>49</sup>

Over the long run, firms might have partially accommodated any mismatch between the qualifications of workers and the heightened skill requirements of a growing share of jobs by favoring the creation of part-time over full-time long-term jobs. Since 1983, when the occupational classification system was revised, higher skilled jobs (i.e., those requiring some postsecondary education at a minimum) have recorded the relatively greatest gains. Higher skilled jobs have increased to the point where they now account for more than one-half of total employment. As shown in **Table 4**, however, just 42% of involuntary part-time workers possessed at least some postsecondary schooling in contrast with 60% of full-time workers. It is thus possible that both supply and demand have been factors in the long-run increase in persons involuntarily employed 1-34 hours a week.

The increased supply of lower skilled workers might extend beyond new groups entering the labor force as suggested above. It has been hypothesized that lower skilled men, who in particular faced falling real wage opportunities, added to the supply of involuntary part-time workers: because men displaced from high-wage factory jobs, for example, were not readily able to obtain comparably paid full-time positions, they opted for part-time employment rather than unemployment or withdrawal from the labor force. The employment constraint thus was on the wage side rather than the hours side, which implies that these workers may have been misclassified as involuntary part-timers. Instead of an undersupply of full-time work

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<sup>47</sup> Mark D. Partridge, “Part-Time Workers and Economic Expansion: Comparing the 1980s and 1990s with U.S. State Data,” *Papers in Regional Science*, vol. 82 (2003), p. 65.

<sup>48</sup> Nardone, *Part-Time Employment*, p. 283.

<sup>49</sup> For more information on the role of benefit costs in firms’ hours-employment decision, see CRS Report 97-884, *Longer Overtime Hours: The Effect of the Rise in Benefit Costs*, by Linda Levine.

*per se*, this analysis implies that there may have been an undersupply of “good” jobs.<sup>50</sup>

**Table 4. Percent Distribution of 25-64 Year Olds Employed Full-Time and Part-Time by Educational Attainment, 2002**

Characteristic	Full-time workers	Voluntary part-time workers	Involuntary part-time workers
<b>Total</b>	100.0	100.0	100.0
8 <sup>th</sup> grade or less	3.2	3.1	8.9
some high school	5.8	5.9	13.6
high school graduate	30.5	30.4	36.2
some college	27.6	30.8	23.9
college graduate or more	32.8	29.7	17.4
<b>Men</b>	100.0	100.0	100.0
8 <sup>th</sup> grade or less	3.8	5.2	9.4
some high school	6.6	8.1	14.3
high school graduate	30.6	27.5	36.4
some college	26.0	27.8	22.7
college graduate or more	33.0	31.3	7.3
<b>Women</b>	100.0	100.0	100.0
8 <sup>th</sup> grade or less	2.3	2.6	8.4
some high school	4.8	5.4	13.0
high school graduate	30.4	31.1	36.0
some college	29.9	31.6	25.1
college graduate or more	32.6	29.3	17.5

**Source:** Tabulated by CRS from the CPS.

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<sup>50</sup> Alec Levenson, “Long-Run Trends in Part-Time and Temporary Employment: Toward an Understanding,” in David Neumark, ed., *On the Job: Is Long-Term Employment a Thing of the Past?*, (NY: Russell Sage Foundation, 2000).