BusinessWeek

Cover Story January 7, 2010, 5:00PM EST text size: TT

The Disposable Worker

Pay is falling, benefits are vanishing, and no one's job is secure. How companies are making the era of the temp more than temporary

By Peter Coy, Michelle Conlin and Moira Herbst

On a recent Tuesday morning, single mom Tammy DePew Smith woke up in her tidy Florida townhouse in time to shuttle her oldest daughter, a high school freshman, to the 6:11 a.m. bus. At 6:40 she was at the desk in her bedroom, starting her first shift of the day with LiveOps, a Santa Clara (Calif.) provider of call-center workers for everyone from Eastman Kodak (EK) and Pizza Hut (YUM) to infomercial behemoth Tristar Products. She's paid by the minute—25 cents—but only for the time she's actually on the phone with customers.

By 7:40, Smith had grossed $15. But there wasn't much time to reflect on her early morning productivity; the next child had to be roused from bed, fed, and put onto the school bus. Somehow she managed to squeeze three more shifts into her day, pausing only to homeschool her 7-year-old son, make dinner, and do the bedtime routine. "I tell my kids, unless somebody is bleeding or dying, don't mess with me."

As an independent agent, Smith has no health insurance, no retirement benefits, no sick days, no vacation, no severance, and no access to unemployment insurance. But in recession-ravaged Ormond Beach, she's considered lucky. She has had more or less steady work since she signed on with LiveOps in October 2006. "LiveOps was a lifesaver for me," she says.

You know American workers are in bad shape when a low-paying, no-benefits job is considered a sweet deal. Their situation isn't likely to improve soon; some economists predict it will be years, not months, before employees regain any semblance of bargaining power. That's because this recession's unusual ferocity has accelerated trends—including offshoring, automation, the decline of labor unions' influence, new management techniques, and regulatory changes—that already had been eroding workers' economic standing.

The forecast for the next five to 10 years: more of the same, with paltry pay gains, worsening working conditions, and little job security. Right on up to the C-suite, more jobs will be freelance and temporary, and even seemingly permanent positions will be at greater risk. "When I hear people talk about temp vs. permanent jobs, I laugh," says Barry Asin, chief analyst at the Los Altos (Calif.) labor-analysis firm Staffing Industry Analysts. "The idea that any job is permanent has been well proven not to be true." As Kelly Services (KELYA) CEO Carl Camden puts it: "We're all temps now."

Peter Cappelli, director of the Center for Human Resources at the University of Pennsylvania's Wharton School, says the brutal recession has prompted more companies to create just-in-time labor forces that can be turned on and off like a spigot. "Employers are trying to get rid of all fixed costs," Cappelli says. "First they did it with employment benefits. Now they're doing it with the jobs themselves. Everything is variable." That means companies hold all the power, and "all the risks are pushed on to employees."

The era of the disposable worker has big implications both for employees and employers. For workers, research shows that chronic unemployment and underemployment cause lasting damage: Older people who lose jobs are often forced into premature retirement, while the careers of younger people are stunted by their early detachment from the working world. Even 15 years out of school, people who graduated from college in a recession earn 2.5% less than if they had graduated in more prosperous times, research has shown.

Diminishing job security is also widening the gap between the highest- and lowest-paid workers. At the top, people with sought-after skills can earn more by jumping from assignment to assignment than they can by sticking with one company. But for the least educated, who have no special skills to sell, the new deal for labor offers nothing but downside.

Employers prize flexibility, of course. But if they aren't careful they can wind up with an alienated, dispirited workforce. A Conference Board survey released on Jan. 5 found that only 45% of workers surveyed were satisfied with their jobs, the lowest in 22 years of polling. Poor morale can devastate performance. After making deep staff cuts following the subprime implosion, UBS (UBS), Credit Suisse (CS), and American Express (AXP) hired Harvard psychology lecturer Shawn Achor to train their remaining employees in positive thinking. Says Achor: "All the employees had just stopped working."

In a typical downturn, the percentage decline in payrolls is about the same as the percentage decline in gross domestic product. But in the recessions that began in 2001 and 2007, the decline for payrolls was much steeper—1.8 percentage points more during the latest downturn. Worse yet, only about 10% of the layoffs are considered temporary, vs. 20% in the recession of the early 1980s.

PERMA-TEMPS

All that cutting has been good for corporate profits. Earnings rebounded smartly as companies kept payrolls down after the 2001 recession; by 2006 profits had hit a 40-year high as a share of national income, at 10.2%, according to Bureau of Economic Analysis data. The credit bust sent that figure plunging to 5.6% during the final quarter of 2008. But over the past year corporate profits' share has rebounded to 7.4% of national income, equaling the 40-year average.

The trend toward a perma-temp world has been developing for years. Bosses are no longer rewarded based on how many people they supervise, so they have less incentive to hang on to staff. Instead, the increasing use of bonuses tied to short-term profit performance gives managers an incentive to slash labor costs. The Iowa Policy Project, a nonpartisan think tank, estimates that 26% of the U.S. workforce had jobs in 2005 that were in one way or another "nonstandard." That includes independent contractors, temps, part-timers, and freelancers. Of those, 73% had no access to a retirement plan from their employer and 61% had no health insurance from their employer, the Iowa group said.

Temp employment in the U.S. fluctuates wildly, by design. The whole purpose of bringing on workers who are employed by temporary staffing firms such as Manpower (MAN), Adecco (ADO), and Kelly Services is that they're easy to shuck off when unneeded. While the number of temps fell sharply during the recent recession, the ranks of involuntary part-timers soared. The tally of Americans working part-time for economic reasons—that is, because full-time work is unavailable—has doubled since the recession began, to 9.2 million.

Companies that seized on the recession as an opportunity to make drastic organizational changes for greater efficiency and flexibility aren't likely to reverse those changes once the economy begins growing again, says David H. Autor, a labor economist at Massachusetts Institute of Technology. In other words, most of the jobs shipped to China will stay in China. And companies that turned labor into a just-in-time, flexible factor of production won't return to an old-fashioned job-for-life arrangement. "For the last 10 years, I and others have been saying that these trends aren't just for a fringe workforce but increasingly are for the mainstream," says Sara Horowitz, founder and executive director of the Freelancers Union, a 130,000-member advocacy group for contract workers. "This recession has shown us that the future is here."

Boeing (BA) typifies the companies that are taking advantage of flexibility. In 2009, it cut 1,500 contingent workers from its commercial division. Says spokesman Jim Proulx: "The first imperative was to reduce all of the contract and contingent labor that we possibly could to shield our regular employees from those layoffs." Boeing says less than 3% of its workforce is contingent. It has also reduced its dependence on costly permanent staff in the U.S. by making new hires abroad. Last March it announced a research and development center in Bangalore that will "coordinate the work of more than 1,500 technologists, including 100 advanced technology researchers, from across India." Bill Dugovich, a spokesman for Boeing's white-collar union in the U.S., the SPEEA, complains that the Indian workers "are basically contract labor."

For years Microsoft (MSFT) has been an avid user of temporary-staffing firms such as Volt Information Sciences (VOL) for a variety of short-term projects, including writing chunks of software, says Microsoft spokesman Lou Gellos. "Our contingent workforce fluctuates wildly depending on the different projects that are going on," Gellos says. "Somebody does just part of a project. They're experts in it. Boom, boom, they're finished." Temps are especially appealing to companies in cyclical industries. "We have been able to get really good talent. Off the charts," says Jeff Barrett, CEO of Eggrock, a manufacturer of pre-built bathrooms based in Littleton, Mass. It has brought on dozens of plumbers, electricians, and administrative workers through Manpower to handle a spike in orders.

With the economy expanding again, and employers loath to add permanent workers, temp employment is one of the few sectors of the labor market that is growing rapidly. Stock prices for the big temp firms have doubled since last March, while analysts surveyed by Bloomberg expect profits to double in 2010 at Robert Half International (RHI) and to jump about 50% at Manpower. LiveOps is among the biggest beneficiaries of the just-in-time labor trend; its revenues grew by a double-digit percentage in 2009 and the company is planning an initial public offering. "We want to do for the world of work what eBay did for commerce," says LiveOps CEO Maynard Webb, a former chief operating officer of eBay (EBAY). "You have access to the talent you need. And when the need is gone, the talent goes away."

"LEADERSHIP ON DEMAND"

The world of temporary work used to be the domain of sneaker-footed admins. No longer. Last year, Kelly Services placed more than 100 people—including lawyers and scientists—in interim stints that paid more than $250,000 a year. At the forefront of the "leadership on demand" movement in the U.S. is the Business Talent Group, whose roster of 1,000 executives has done jobs at companies like mobile-phone content provider Fox Mobile (NWS), health-care company Healthways (HWAY), and private equity firm Carlyle Group. BTG says its client demand rose 50% in 2009.

Sydney Reiner, of Southern California, has had five assignments in five years as an interim chief marketing officer at companies like Coffee Bean & Tea Leaf and Godiva Chocolatier. "I got a call from Godiva on a Wednesday asking if I could be on a plane to Japan on Saturday," says Reiner. "I was." For the past two months, she's been the interim chief marketing officer at beverage maker POM Wonderful. Reiner prefers the challenge of working in short, adrenaline-packed chunks. But like Smith, the University of Chicago MBA has no access to employer-sponsored health insurance and other benefits. Says Reiner: "To some extent I end up working as hard as a permanent employee, without a lot of the benefits."

Reiner relishes the flexibility of the free-agent lifestyle. While there are others like her, many upscale, white-collar workers aren't contingent laborers by choice. Matthew Bradford, who is 38 and married with three young children, could scarcely believe it when he was laid off in early 2009 by a national law firm in Cleveland. He eventually set up as a one-man "legal professional association" in Akron, handling overflow from other lawyers while he slowly builds up his own practice. Meanwhile he's responsible for his own health insurance and a share of office overhead, things he never considered when he was on track to making partner back in Cleveland. "I never would have thought this would have happened," says Bradford. "I thought, 'Hey, I've got a law degree and an MBA. I'm not going to be out of work.' It's just not the case anymore."

During the boom-time 1990s, employers sold the move away from secure full-time jobs as pure upside for workers—a step toward greater flexibility and freedom. To compete with dot-coms, corporations like IBM (IBM) started replacing some fixed pay with variable compensation: stock options, bonuses, and other cash incentives that have to be renegotiated each year. It was attractive for awhile, but the Great Recession is showing workers the downside of that deal. Employers' unspoken message to employees, says Cornell University labor economist Kevin F. Hallock, is this: "You can absorb more risk, or you're going to lose your job. Which would you prefer?"

At the bottom of the ladder, workers are so powerless that simply getting the minimum wage they're entitled to can be a struggle. A study released in September and financed by the Ford, Joyce, Haynes, and Russell Sage Foundations found that low-wage workers are routinely denied proper overtime pay and are often paid less than the minimum wage. It followed a Government Accountability Office report from March 2009 that found that poor oversight by the Labor Dept.'s Wage & Hour Div. leaves low-wage workers "vulnerable to wage theft." Some companies have been fined for misclassifying employees as freelancers and then denying them benefits. Meanwhile, the George W. Bush Administration made it easier for people earning as little as $23,600 a year not to be covered by overtime-pay rules.

Workers hired for temporary or contract work face a higher risk of developing mental health problems like depression, according to research presented in 2009 by Amélie Quesnel-Vallée of McGill University. A lack of job security and health-care benefits, as well as social ties to the rest of the workforce, increase stress levels for temps and contractors. A survey conducted in September by the National Alliance on Mental Illness found that people who experienced a forced change in their employment during the last year were twice as likely to report symptoms consistent with severe mental illness as individuals who hadn't experienced one.

The situation is especially difficult for young people, many of whom haven't been able to get a first foot on the career ladder. The percentage of people 16 to 24 who have jobs has plummeted by 13 percentage points since the beginning of 2000, while the share of workers 55 and over who have jobs has edged up over the period, despite the recession. Some young people are so desperate to get a start, they're working for free as semi-permanent interns. "Companies that used to use only one or two interns are now asking me for five or six at a time," says Lauren Berger, who runs a company that matches interns with entertainment, marketing, and media companies. Berger also reports a rise in the number of "adult interns," who work for free while trying to break into a new career.

Those internships might look like plum spots in years to come, for the gloomy trends in the labor market show no sign of abating. Consider some statistics. In the 2001 recession cycle, the economy lost 2% of its jobs and took four years to get them back. This time it has lost more than 5% of its jobs. Even after the recession is history, employers are likely to continue to offshore and automate jobs out of existence. If they don't, they'll lose out to competitors that do. In a November update of previous research, Princeton University economist Alan S. Blinder estimated that 22% to 29% of all U.S. jobs will be offshorable within two decades. Of course, even working in a job that's not offshorable—say, landscaping—is no guarantee of job security or decent pay. That's because people in those jobs must compete with the millions of former factory workers and such whose jobs have already been offshored, notes Josh Bivens, an economist at the Economic Policy Institute in Washington.

IBM may strike many people as the quintessential American company, but 71% of its workforce was outside the U.S. at the end of 2008, a figure even higher than the non-U.S. share of its revenue (65%). In 2009 the company reduced its U.S. employment by about 10,000, or 8%. It also announced a program offering certain employees the opportunity to move their jobs to emerging markets; in turn, the company will foot some of the relocation costs.

PAY CUTS

When employment in the U.S. eventually recovers, it's likely to be because American workers swallow hard and accept lower pay. That has been the pattern for decades now: Shockingly, pay for production and nonsupervisory workers—80% of the private workforce—is 9% lower than it was in 1973, adjusted for inflation. Sure, back in the 1950s pillars of the economy such as General Motors paid generously, because they could. Contracts between GM and the United Auto Workers set a pattern for pay throughout the economy, says Harley Shaiken, a professor at the University of California at Berkeley who specializes in labor issues. But while unions covered 36% of private-sector workers in 1953, the figure plunged to less than 8% by 2008. "Today, working conditions are set either by trends in the global economy or by nonunion firms in the U.S.," says Shaiken. He points out that while GM was the largest U.S. employer in the 1950s, "today that role is played by Wal-Mart (WMT), with very different consequences."

The best solution to relieve the pressure on workers would be rapid economic growth sustained over a long period, possibly enabled by some technological breakthrough. The Internet boom pushed unemployment to less than 4% in 2000. But few economists expect such a renaissance anytime soon. That's why labor unions and politically liberal economists argue for New Dealesque public jobs programs and against free-trade pacts like the North American Free Trade Agreement. In 2007, Ralph E. Gomory, former head of IBM's research department and later a senior vice-president at the company, declared before a U.S. House panel: "In this new era of globalization the interests of companies and countries have diverged. In contrast with the past, what is good for America's global corporations is no longer necessarily good for the American people."

Conservative economists, in contrast, say the real problem is too much government intervention in the economy. Employers who might be adding jobs are frozen in place by uncertainty over the impact of pending legislation on health care, global warming, and other big-ticket items, says economist Steven J. Davis of the University of Chicago's Booth School of Business. "I can't think of another time during my professional lifetime when there was so much riding on policy decisions that could get made in the next year or two."

For a glimpse of where things might be headed in the U.S., look at Europe, which makes a lot more use of temporary and part-time workers than U.S. employers do. That's in large part because of Europe's famously rigid labor laws; rather than hiring permanent workers, employers turn to temps and contractors who can be let go more easily during a downturn. In Spain, 85% of recent job losses in this recession were by temps or contractors. One big difference: Most European countries cover temps and part-timers with government health insurance and require that they receive wages and benefits comparable to those for permanent employees doing similar work.

Look far enough into the future and it's possible to see better times ahead for labor. A decade from now the retirement of the baby boom generation could cause labor shortages and hand some bargaining power back to younger workers, says Robert Mellman, a senior economist at JPMorgan Chase Bank (JPM). If that happens, woe unto employers. A survey in 2009 by the benefits consultant now known as Towers Watson found that top-performing employees will be ready to jump ship as soon as a better offer comes along. Says Wharton's Cappelli: "The idea of loyalty—'I will stick with you and you will reward me'—that is effectively gone."

But those are issues for another day. Right now the face of American labor is more like that of Jamila Godfrey, 35, of Seattle. A licensed naturopathic physician, she ran an alternative medicine practice but decided to scoop up another degree, this time in nursing, for greater job security. Though she graduated in June, and health care is the strongest sector in the economy, she hasn't been able to find a job because hospitals can't spare the money for three months of on-the-job training. To support herself and her 12-year-old daughter, the single mother has been working as a temp for the past several months, but that project ends in several weeks. "I'll be jobless again," says Godfrey. "I thought the [RN] qualification would make it easy to find a job, but it's not working out that way."

With Carol Matlack in Paris