

Temporary employment

Why do companies hire temporary employees? The answer: to attain “numerical flexibility.” But what are the relevant elements of numerical flexibility? Matt Vidal and Leann M. Tigges make progress towards a full answer to this question in their article “Temporary Employment and Strategic Staffing in the Manufacturing Sector” (*Industrial Relations*, January 2009, pp. 55–72).

Temporary employment grew dramatically in the United States in the 1980s and 1990s. Vidal and Tigges set forth three suggested general explanations for hiring temps: *reactive* numerical flexibility, *planned* numerical flexibility, and *systematic* numerical flexibility. Hiring temporary employees in order to cope with unexpected changes in demand or employment qualifies as reactive numerical flexibility. If an employer hires temps in order to be able to handle expected fluctuations in demand or employment, to allow a group of core workers to remain safe from layoffs, or to screen for regular employment, then the employer is engaging in planned numerical flexibility. Systematic numerical flexibility, in contrast, is achieved when a company hires “temporary” employees to fill regular, long-term positions.

Vidal and Tigges use data from a survey of Wisconsin manufacturing establishments to seek evidence supporting each of the three general explanations for hiring temps. They find statistically significant relationships indicating that employers hire temps in order to attain planned and systematic numerical flexibility, but they find much less evidence supporting the hypothesis that establishments use temps in a reactive manner.

The results of the study suggest that protecting a core workforce from layoffs is not a motivation behind the use of temporary employees. It is not known whether employers hire temps

in order to screen workers for regular employment, but if they do, this practice has not proven to be effective in reducing turnover. It does appear that businesses use temps to handle planned periods of heavy demand. When comparing establishments that use temps with those which do not, the study finds statistically significant, positive associations between the use of temps and establishments experiencing growth, establishments with a human resources department or a link to one, and establishments that are branches—in other words, establishments with better organizational resources. Although superior resources help determine which organizations use temps, these resources are not related to the degree of use when the only establishments in the sample are those which have temps. In short, it appears that businesses hire temps to attain planned and systematic numerical flexibility, and that establishments with better organizational resources are more likely to use temporary contracts.

Financial literacy

In a timely and provocative new study published by the National Bureau of Economic Research entitled “Debt Literacy, Financial Experiences, and Overindebtedness” (NBER Working Paper No. 14808, March 2009), economists Annamaria Lusardi and Peter Tufano analyze a national sample of Americans with regard to their basic financial knowledge related to debt—what the authors call “debt literacy”—as well as their actual financial experiences and their self-assessment of their personal finances and level of debt. The authors reach some interesting and perhaps not surprising conclusions. They find that, in general, debt literacy is low: only a third of the respondents seemed to grasp such relevant financial topics as compound interest and the basic workings of credit cards. Further, even when they

control for various demographic characteristics, Lusardi and Tufano find a “strong relationship” between debt literacy and both financial experience and debt burden. Specifically, those with less knowledge and understanding of how the U.S. financial system works tend to incur more high-cost debt services (higher interest rates and fees, for example) and experience a greater debt burden than those with more knowledge. The authors estimate that as much as one-third of the charges paid by the less knowledgeable are due to ignorance as opposed to other demographic factors.

Lusardi and Tufano teamed with a marketing research firm to develop and conduct their survey, which seeks information about the respondents’ financial knowledge related to debt, as well as their personal financial experiences and their level of debt. The survey was conducted in November 2007, which, as the authors observe, was before the current financial crisis began. They interviewed 1,000 U.S. residents across the country by telephone, collecting self-reported demographic information such as age, sex, race and ethnicity, marital status, employment, income, and wealth. Lusardi and Tufano designed their survey questions to test the respondents’ understanding of “fundamental concepts related to debt.” In addition, they asked questions about a wide range of financial experiences, from traditional and alternative borrowing to investment activity. Finally, they asked people to assess their own level of “overindebtedness.” The authors’ “conclusions suggest a complex set of interactions among debt literacy, financial experiences, demographics, and debt loads.” They find that debt literacy is especially low among the elderly, women, certain minorities, and those with lower income levels. Interestingly, some of these groups, such as the elderly, often *think* that they understand their finances more than they actually do.