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The Nature and Role of Temporary Help Work in the U.S. Economy

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The Nature and Role of Temporary Help Work in the U.S. Economy

This article is based on the authors' working paper, "Temporary Help Employment in Recession and Recovery," Upjohn Institute Working Paper No. 15-227. To read the paper, please visit research.upjohn .org/up_workingpapers/227/.

Although only about 2 percent of wage and salary workers are employed in the temporary help industry, temporary agencies account for a much larger share of the U.S. workforce in blue-collar occupations and play an outsized role in workforce adjustment during recessions and recoveries. According to data from the Bureau of Labor Statistics, 8.4 percent of workers in production occupations and 16.1 percent of workers in material-moving occupations (such as warehouse workers and industrial truck drivers) are hired through staffing companies. Reflecting, in part, the concentration of its employment in cyclically sensitive occupations, the temporary help industry contracted by 30 percent and accounted for 11 percent of net employment losses economy-wide during the Great Recession.

Despite its importance in the macro economy, relatively little is known about the nature of temporary help work or its role in workforce adjustment. This information gap results in large part from the fact that temporary help agencies function as labor market intermediaries, contracting out workers to client organizations. Although temp agency workers work at the clients' sites, typically under the clients' supervision, they are the legal employees of the temporary help agency. Government surveys collect no information on the industries to which temporary agency workers are assigned, so we know little about where the work is performed and the employment outcomes of these workers.

This article provides insights into the nature of temporary help work at one of the largest staffing companies in the United States, using detailed information on all temporary orders in the U.S. operations of the company from 2007 to 2011. The temporary help industry is diverse, and we do not claim that our data are representative of all companies. Nevertheless, this company's practices are likely similar to those at other large staffing companies, and, to the extent that this is the case, our data should describe an important segment of the industry.

Where Temporary Help Workers Work

The occupational distribution of hours worked in our temporary help firm is closely comparable to that of the temporary help industry in national statistics. As in national data, about half of employment is in industrial or blue-collar occupations, which include production occupations and materials-handling and logistics occupations. Together, blue-collar and office

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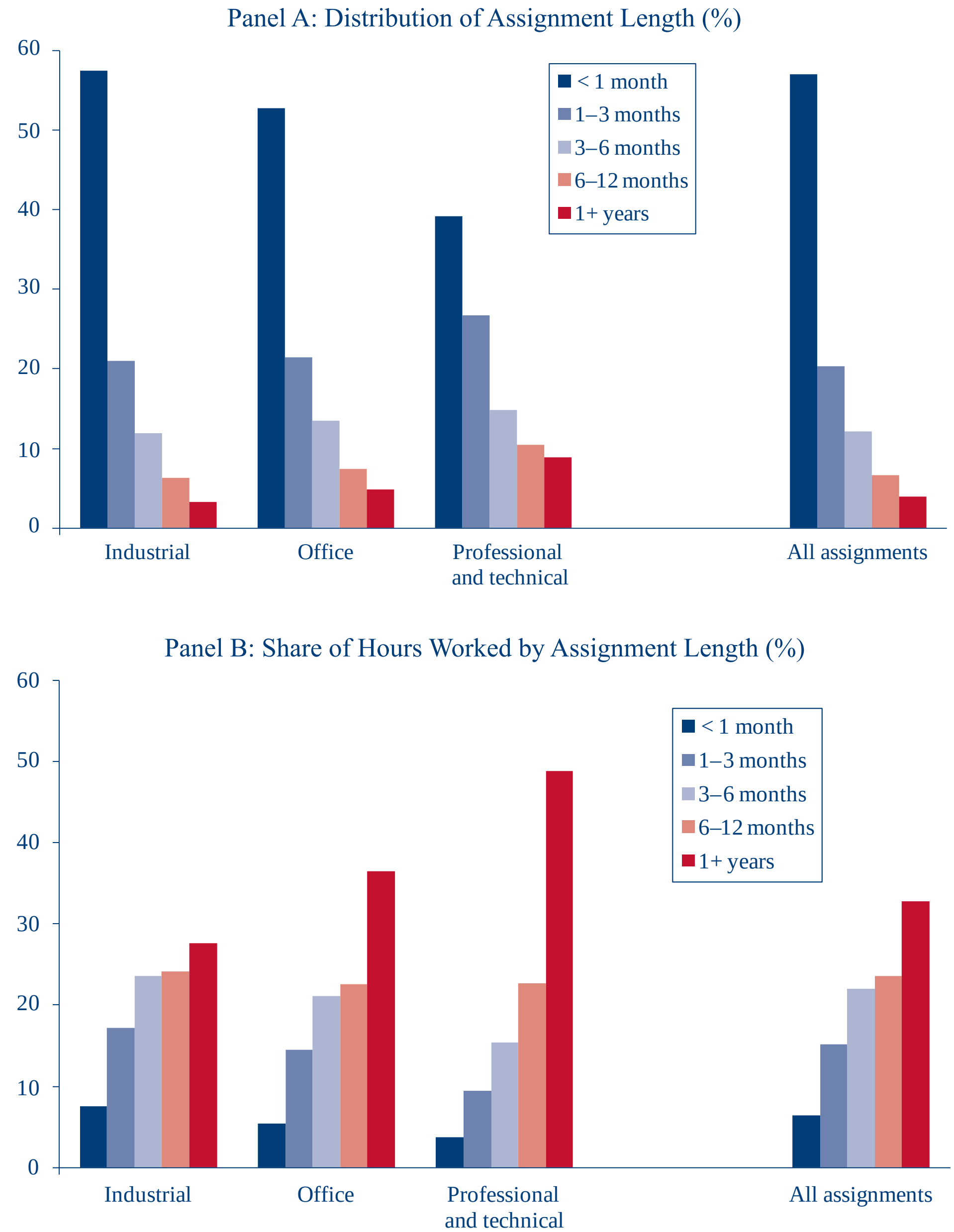
occupations account for three-fourths of the hours worked in our firm. Another 15 percent of hours are in a variety of professional and technical occupations, which include jobs in law, health, accounting, science, and education.

Just as in national statistics, the temporary help firm represented in our data does not systematically collect information on the industries in which their workers are placed. For the years 2010 and 2011, however, the temporary help firm linked client names and addresses to business lists that include industry information. Through this process, it was possible to code industry for assignments that accounted for two-thirds of its temporary help hours in these years. Consistent with the occupational patterns of temporary help workers, a majority of workers were placed in industries that heavily utilize manual labor. Among temporary help hours for which client industry could be identified, over half (53 percent) were in the manufacturing sector, 7 percent were in wholesale trade, and 6 percent were in transportation.

How Temporary Are Temporary Help Jobs?

While the name temporary help implies short-term assignments, case studies and the media have reported instances in which workers are on assignments for an extended time period, a phenomenon dubbed "perma-temping" (Eisenberg 1999). Our data, which include information on assignment start and end dates, paint a complex picture. As shown in Panel A of Figure 1, which plots the distribution of assignment lengths for selected broad occupations and all assignments commencing between 2007 and 2010, the large majority of assignments at this temporary help firm are short. Three-fourths of all assignments lasted less than three months, with over half lasting less than one month. Even in assignments involving professional and technical workers, the duration was less than three months in two-thirds of the cases. In contrast, 4 percent of all assignments commencing during these years lasted a year or more; for professional and technical workers that figure was 9 percent.

Figure 1 Length of Temporary Help Assignments by Broad Occupation, 2007–2010



As we discuss below, however, a large share of workers are fired or quit prior to the completion of their assignment, which skews the distribution of assignment length. Moreover, by definition, long assignments account for a disproportionate share of hours worked. Panel B of Figure 1, which shows the distribution of hours worked in temporary assignments by the length of those assignments, displays the opposite pattern of that in Panel A: long assignments account for the majority of work performed in the temporary help agency. In industrial and office occupations, respectively, 28 percent and 37 percent of hours worked are in assignments lasting at least one year, and 52 percent and 59 percent of hours worked are in assignments lasting at least six months. For professional and technical workers, nearly half (49 percent) of the work occurred in assignments lasting a year or more, and over 70 percent were in assignments with a duration of at least six months. Thus, while most temporary help assignments are short, the majority of temporary help work takes place in long-lasting assignments.

Transitions to Permanent Positions and Other Outcomes

Temporary help positions often are promoted as pathways to permanent employment. Client organizations have the opportunity to see how a temporary agency worker performs on the job and may offer workers a permanent position following the temp assignment. While this screening process typically is informal, the temporary help firm we study also designates certain contracts (about 4 percent) as "temp-to-hire," meaning that there is an explicit understanding that the worker is auditioning for a permanent position with the client. In our data, about 7 percent of all temporary help assignments ended in a hire by the client. The hire rate was only slightly higher among professional and technical workers (8.8 percent) than among office workers (8.0 percent) and industrial workers (6.6 percent). Individuals, of course, may work on multiple assignments before they find a good match. Over the five-year period covered by our data, 15 percent of all individuals working for the temp help firm were ultimately hired by a client. Thus, although a sizable share land a permanent job via their temp assignment, our data suggest that in the large majority of cases, firms are using temporary help agencies to meet a temporary staffing need.

Interestingly, even in temp-to-hire assignments, less than half ended in a hire by the client. Among professional and technical workers, 44 percent of temp-to-hire assignments ended in a hire, and among industrial workers, only 22 percent were hired by the client. Although turnover of new hires is high in industries using industrial workers, our analysis indicates that it is considerably lower than the implied turnover of those in temp-to-hire positions, who spend their probationary period on the payroll of the temporary agency. With the caveat that we cannot control for possible differences in the pool of new hires entering from temporary help firms and new hires made directly by employers, our findings are consistent with case study evidence indicating that use of temporary help agencies to screen new hires allows firms to be more selective (Cappelli 2012; Houseman, Kalleberg, and Erickcek 2003).

Figure 2 shows the distribution of assignment outcomes: fired or quit, hired by the client, otherwise completed the assignment, or other outcomes; the last category includes the client terminating the contract early for reasons other than worker performance. Most notable is the large share of temp agency workers who are fired or quit before the assignment is complete—about one-third. In industrial occupations, which include the lowest-paying jobs, that share exceeds 40 percent. Being fired for tardiness or failing to report to work are especially common among those in low-wage occupations. Our data point to a significant challenge that temporary help agencies have in finding good matches between workers and organizations. Difficulty recruiting and retaining workers in these positions may help explain companies' extensive reliance on temporary help agencies to fill them.

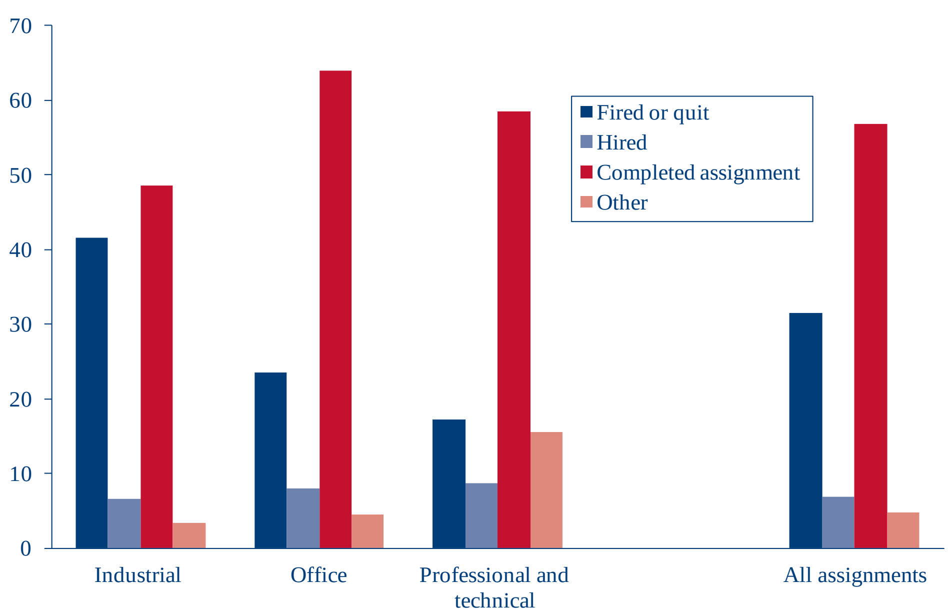
Temporary Help in Recession and Recovery

The temporary agency company's data span the recession and early years of the recovery, and we use it to provide insights into the dynamics of temporary help employment in recession and recovery. Employers' reliance on temporary help staff is most apparent during recessions, when many firms simultaneously experience adverse demand conditions and terminate temporary help contracts to quickly reduce staffing levels. During the recession and initial recovery, when many are uncertain about future economic conditions, employers also may disproportionately rely on temporary help staff to expand their workforces. Indeed, although the temporary help industry experienced robust growth following the official end of the recession in 2009, employment growth in the economy overall was weak until 2012. A leading hypothesis for that weak aggregate employment growth is that companies were uncertain about the strength of the recovery and were reluctant to take on permanent employees (International Monetary Fund 2012). Consistent with this hypothesis, our model estimates, which control for changes in the quality of temporary help workers during the recession, show that companies reduced hiring from the pool of temporary help workers and lengthened the duration of temporary assignments during the recession and initial recovery period.

The Future of Temporary Help Workers

Although unemployment rates have returned to prerecession levels, wage

Figure 2 Outcomes of Assignments in Temporary Help Agency (% distribution)



growth is weak, labor force participation is historically low, and deep concerns remain, particularly about the low-wage workforce. Temporary help agencies, which hire a disproportionate share of low-wage workers, are often touted as providing a pathway to permanent, better jobs for these workers, yet we see strikingly low hire rates in our data, even among those in temp-to-hire contracts. Low conversion rates to permanent jobs with clients reflect the fact that employers are highly selective in making job offers to temporary help workers, but they also reflect skills deficits among the workers. Performance problems or quits prior to assignment completion drive a significant share of temporary help assignment terminations, with "soft skill" problems such as tardiness and unexcused absences notably high among the lower-paid temporary workers. In sum, our data indicate that the pathway to better jobs via temporary help employment currently is limited for low-wage workers.

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Johannes Schmieder and Deborah Goldschmidt

Domestic Outsourcing Reduces Wages and Contributes to Rising Inequality

This article highlights findings from "The Rise of Domestic Outsourcing and the Evolution of the German Wage Structure," Upjohn Institute Working Paper No. 15-244. To read the paper, please visit research.upjohn.org/up_workingpapers/244/.

The last three decades have seen a thorough transformation of the nature of the labor market, with large firms increasingly relying on nontraditional employment arrangements such as outsourcing, temporary or contingent work, offshoring, and subcontracting. Across a wide range of industries, firms have been focusing on their "core competencies" and hiring outside companies to provide services that were once performed by their own employees, such as cleaning, security, logistics, human resources, or information technology.

Outsourcing to business service providers potentially allows for reductions in wages for the contracted-out jobs. The outsourcing firms are often traditional lead companies in sectors such as manufacturing or finance, and they typically offer the most attractive jobs, with higher wages, increased job security, strong worker representation, and union coverage. Large employers may thus find it beneficial to reduce the number of direct employees who benefit from such wage premia by outsourcing jobs to subcontractors. These business service firms compete fiercely with each other for service contracts from large companies on price, and since labor costs are a large share of business service firms' total costs, this creates intense pressure to lower wages and reduce benefits.

We analyze domestic labor service outsourcing in Germany using detailed administrative data on workers and firms. We use the term *domestic outsourcing* rather than offshoring, as it refers to a form of outsourcing where the service provider is located in the same country. We document for the first time in detail the increase in outsourced labor services over the last three decades in Germany, focusing in particular on cleaning, security, logistics, and food services.

Figure 1 shows the share of all full-time workers in business service firms that provide cleaning, security, and logistics services, as well as temporary help agencies. In 1975 only 2 percent of the German labor force worked for such companies, but that number almost quadrupled by 2008 to around 7 percent. A substantial share of this rise is due to the growth in both temp agency work and business service firms. Since employment in cleaning, security, and logistics occupations has remained relatively constant, this suggests that a much larger share of these occupations are now working for contractors.

In order to obtain credible effects of outsourcing on wages, we develop a new method of identifying a particular type of outsourcing—*on-site outsourcing*—which refers to situations where a large employer spins out a group of workers providing a particular service, such as cafeteria workers, to a legally separate business unit, such as a subsidiary or an existing business service provider. In these situations the outsourced workers still work together and do essentially the same job at the same physical location but for a different employer. Such outsourcing events can be identified in administrative data sets using worker flows between establishments.

The basic intuition is that if a group of workers is contracted out at the same time, this can be observed by following