



Do Temporary Jobs Help Low-Skilled Workers?

Surprising Data from Detroit

by David Autor, University of Chicago, and Susan N. Houseman,
W.E. Upjohn Institute

A question that has long puzzled policymakers, “Does temping ultimately help welfare recipients move into good, permanent jobs?” has not been an easy one to answer. Fortunately, the unique way Detroit set up its welfare-to-work program, Work First, has provided researchers with an opportunity to find out. The results are surprising.¹

Temping and Low-Skilled Workers

Temporary-help firms employ a disproportionate share of low-skilled and minority U.S. workers. In 2005, for example, African American workers accounted for 23 percent of workers in temporary-help employment and only 11 percent of workers in direct-hire employment. Latinos were 21 percent of temp workers and 13 percent of direct hires. The comparable percentages for high school dropouts were 17 percent and 9 percent. In contrast, those with college degrees made up only 21 percent of temporary-help workers and about 33 percent of workers in direct-hire employment.²

The concentration of low-skilled workers in temporary-help jobs is especially pronounced among welfare recipients. Recent analyses of state administrative welfare data reveal that 15 percent to 40 percent of former welfare recipients who obtained employment after the 1996 U.S. welfare reform took jobs in the temporary-help sector. The numbers are particularly striking considering that the temporary-help industry accounts for less than 3 percent of average U.S. daily employment.

The concentration of low-skilled workers in the temporary-help sector, in conjunction with the rapid growth of temporary-help jobs, which accounted for 10 percent of net U.S. employment creation in the 1990s and almost one-third of job loss between 2000 and 2002, has catalyzed a research and policy debate about whether temporary jobs foster labor market advancement.

Two Hypotheses

One hypothesis has been that because temporary-help firms face lower hiring, screening, and termination costs than do conventional, direct-hire employers, they provide work for individuals who otherwise would have difficulty finding employment. Thus, temporary-help jobs may reduce the time workers spend in unproductive, potentially discouraging job searches and may facilitate rapid entry into employment. Moreover, the theory goes, temporary assignments may permit workers to develop the skills and contacts that can lead, directly or indirectly, to longer-term jobs. After all, many employers use temporary-help assignments to screen workers for direct-hire jobs. Temporary-help jobs could serve as a springboard.

Alternatively, numerous scholars and practitioners have argued that the unstable and primarily low-skilled placements offered by temporary-help agencies provide little opportunity or incentive for workers to invest in skills or develop productive job-search networks. In support of that view, several studies find that workers in temporary-help jobs receive on average lower pay and fewer benefits than would be expected in direct-hire jobs. And although mobility out of the temporary-help sector is high, many of those leaving enter unemployment or exit the labor force.

If temping was merely what people did instead of collecting unemployment while out of work, these facts would be of little concern. But to the degree that spells in temporary-help employment crowd out productive direct-hire job searching, they may inhibit longer-term labor advancement. Under this hypothesis, the short-term gains from nearer-term employment in temporary-help jobs may be offset by employment instability and poor earnings growth.

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Testing these two hypotheses has been an empirical challenge. The key problem in making inferences about whether temping causes one scenario or the other is that there are economically large, but typically not measurable, differences in skills and motivation between workers taking temporary jobs and workers taking direct-hire jobs. In the absence of random assignment of low-skilled workers to the two job types, a statistical comparison of labor force outcomes among low-skilled workers may not be a reliable gauge of the causal effects of temporary-help jobs on labor market advancement.

A Window in Detroit

A unique policy in Detroit provided the opportunity for the authors to overcome some of the research challenges. Unintentionally, but nevertheless effectively, Detroit created randomized Work First groups suitable for a study. For administrative purposes, welfare

services were divided into 12 geographic districts, each served by two to four independent Work First contractors in each program year. Individuals applying for benefits report to welfare offices in their district, which in turn refers those eligible for cash assistance to a Work First contractor. To ensure an even allocation of participants, each welfare office randomly distributes entering Work First clients among contractors.

This randomization gives rise to significant differences in direct-hire and temporary-help job-taking rates among identical Work First participants assigned to different contractors. Why? The reason is that each Work First contractor has unique job-placement policies—some focus on placing clients in direct-hire jobs while others rely more on temp agencies. Although welfare participants can and do find jobs on their own, job developers at each contractor play an influential role in the search process.

The job developers' role includes encouraging or discouraging participants

from applying for specific jobs and employers, referring participants directly to job sites for specific openings, and arranging on-site visits by employers—temporary-help agencies in particular—that screen and recruit participants at the Work First office. The jobs that Work First participants take depend in part on an individual contractor's employer contacts and, more generally, on contractor policies that foster or discourage temporary agency employment.

The random assignment process enabled the authors to exploit differences in the probability that a welfare recipient would take a temporary job, a direct-hire job—or no job—to study the effects of Work First employment and job type on longer-term earnings and recidivism. Welfare case records from the Michigan Work First program were linked to complete wage records from the Michigan Unemployment Insurance agency for close to 40,000 Work First episodes initiated between 1997 and

2003. Using those data, the authors analyzed how Work First clients' random assignment to a given contractor affects, initially, their employment placement (direct-hire, temporary help, or no placement) and, ultimately, their earnings, job stability, and welfare recidivism over the subsequent two years.

Not Moving Up

Moving welfare participants into either temporary jobs or direct-hire jobs boosts their short-term earnings. In the calendar quarter following placement, workers placed in either type of employment earned \$500 to \$600 more than clients who, because of the randomization, were not placed in a job (but may have found one on their own).

For those placed in direct-hire jobs, the gains persist. Over two years, the average direct-hire placement boosts total earnings by approximately \$4,500 (55 percent more

benefits for Work First clients or help them obtain direct-hire jobs. The initial earnings gains observed following temporary-help agency placements are subsequently offset by lower earnings (the result of less frequent employment) and higher welfare recidivism over the next one to two years. Clients taking such jobs are no more likely to work for a direct-hire employer in the subsequent two

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years than clients who receive no placement at all. It thus appears that temporary-help placements displace other productive job-search and work opportunities rather than

their clients' successful entry into the labor market. The Detroit results suggest that such strategies are not effective.

What are the reasons? Detroit Work First contractors interviewed for the research offered their thoughts. Several noted that some temporary agency jobs do provide a useful entrée into direct-hire placements with good employers. But temp-to-hire

jobs generally require stronger skills and more experience than their clients typically possess. Other contractors pointed out that some temporary agencies are willing to hire individuals with very weak skills, experience, and motivation if the jobs need few skills and require no long-term commitment. However, such jobs do not appear to confer benefits beyond what clients otherwise obtain on their own.

In the long run, job placements that encourage individuals to overcome rather than accommodate their limitations may be more beneficial. Thus, an important policy prescription of the research is that welfare programs should consider reducing the incentives for contractors to move participants quickly into any job available and should instead motivate contractors to place clients in jobs offering greater stability and longer-lasting benefits.

David Autor is a visiting associate professor of economics at the University of Chicago (on leave from Massachusetts Institute of Technology). **Susan N. Houseman** is a senior economist with the W.E. Upjohn Institute for Employment Research, based in Kalamazoo, Michigan.

Endnotes

¹ David H. Autor and Susan N. Houseman, "The Role of Temporary Employment Agencies in Welfare-to-Work: Part of the Problem or Part of the Solution?" Focus 22 (1).

² U.S. Department of Labor, Bureau of Labor Statistics, <ftp://ftp.bls.gov/pub/news.release/conemp.txt>.

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than the earnings of those who receive no job placement) and appears to increase the probability that a participant remains in ongoing employment with a single employer. The stability is particularly valuable to welfare participants, who often face challenges coordinating transportation and child care to meet unstable work schedules. Perhaps for this reason, clients placed in direct-hire jobs have lower rates of welfare recidivism.

By contrast, we find no evidence that temporary-help placements produce durable

foster new opportunities.

The results do not imply that temporary agency jobs never improve long-term outcomes for workers. Rather, they demonstrate that temporary-help placements induced by job-assistance programs do not on average help participants advance in the labor market.

The results should interest policymakers. Public agencies play a substantial role in determining the types of jobs their clients seek, and many have turned to temporary agencies in hopes of hastening