Do Temporary Help Jobs Improve Labor Market Outcomes for Low-Skilled Workers?

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High Incidence of Temporary Agency Employment among Low-Skilled Job Entrants

- **Account for 2-3% daily employment, but disproportionate share of temporary agency jobs:**
  - In low-skilled, entry-level occupations.
  - Held by minorities.
  - Held by those with no post-high-school education.

- **Strikingly high incidence among welfare population:**
  - 20% of jobs obtained by Work First participants in our Michigan study sample in Temporary Help sector.
  - According to studies in Wisconsin, Missouri, Washington State, Georgia: 15% - 40% of employed welfare recipients are in temp help sector.

- **Policy issue: Do temporary help jobs facilitate work transitions among welfare and other low-income populations?**
Two Views of Temporary Help Jobs:

- **Augmenting job search: ‘Stepping stone’**
  - Temporary help jobs connect low-skilled workers with potential employers, build skills, and gain work experience.

- **Prolonging instability: ‘Stumbling blocks’**
  - Temp agency jobs offer few chances for advancement or skills development.
  - May crowd out productive job search, hamper long-term advancement.

- **Relevant policy question is…**
  - Which effect predominates in low-wage/low-skilled labor markets?
The Difficulty of Answering the Question

- Hard to distinguish consequences of taking a given job type from the factors that cause person to take that job initially, e.g., skills, motivation, life circumstances.

- Recent Studies:
  - Use various non-experimental methods to control for selection problem
  - Almost all find positive role for temporary help agencies in facilitating return-to-work transitions—2 studies recommend expanded use of temp agencies

- Our Study
  - Uses unique quasi-experiment with random assignment in Detroit’s welfare-to-work program
  - Findings do not support expanded use of temporary help agencies in welfare-to-work transitions
Our Study of Detroit Work First Program

- **Michigan “Work First” approach**
  - Emphasis on rapid placement into jobs
  - Few resources provided for training or counseling
  - After orientation, full-time job search – service providers help place participants into jobs

- **Detroit randomly assigns Work First participants to service providers (“Contractors”)**
  - City divided into 12 geographic districts with 2-4 contractors operating in each
  - Contractors differ in propensity to place participants into temp, direct-hire, or no job – otherwise provide similar (minimal) services
  - Like having 12 small quasi-experiments – which we exploit to identify the effects of job type on labor market outcomes over 2-3 years
Nuts and Bolts: How the Quasi-Experiment Works
The Impact of Job Placement Type on Employment over Subsequent 8 Quarters (IV Estimates)

<table>
<thead>
<tr>
<th>Quarters employed</th>
<th>No placement</th>
<th>Direct-Hire Placement</th>
<th>Temp Job Placement</th>
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<tbody>
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<td>QTR1</td>
<td>Direct-Hire</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>QTR2-4</td>
<td>No Job</td>
<td>Temp</td>
<td>None</td>
</tr>
<tr>
<td>QTR5-8</td>
<td>No Job</td>
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</tr>
<tr>
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<td>No Job</td>
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</tbody>
</table>
The Impact of Job Placement Type on Earnings over Subsequent 8 Quarters (IV Estimates)
Why Temporary Job Placements Fail to Improve Long-term Labor Market Outcomes

- Placements into temp jobs, on average, do not help workers transition to direct-hire, regular jobs
- Temp placements do foster more temp jobs in first year
- Employment with temporary help firms crowds out employment and earnings with direct-hire employers.
The Impact of Job Placement Type on Temp Earnings (IV Estimates)
The Impact of Job Placement Type on Direct-Hire Earnings (IV Estimates)
Policy Implications: Temporary Help Placements

- Findings do not imply the temp placements never help low-skilled workers.
- No support for policy recommendation that encourages greater use of temporary agencies.
- Increasing placements in direct-hire jobs more effective strategy.
  - Some should pass up opportunity to work for temp agency, continue to search for direct-hire job.
- Findings raise questions about Work First incentives:
  - Emphasis on rapid job placement may not allow continued search for better job.
  - Performance evaluations based on 90-day retention too short.
Policy Implications: Direct Hire Placements

- Find direct-hire job placements do improve employment and earnings outcomes up to two years
  - Increase earnings $2400 first year, $1700 second year
- Large and statistically significant effects of direct-hire placements on subsequent earnings still insufficient to have much effect on poverty levels.