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Does temporary agency employment offer a way out of poverty?

Is temporary agency employment a good strategy for helping the poor and disadvantaged escape from their poverty? Resolving this question is no small matter. Although the temporary help sector accounts for less than 3 percent of average U.S. daily employment, it employs a disproportionate share of minority and low-skilled workers. And state administrative data show that between 15 and 40 percent of former welfare recipients who obtained employment after the 1996 welfare reforms took jobs in the temporary help sector.¹

Several recent studies present evidence that low-skilled workers who take temporary agency jobs are more likely than other low-skilled workers (particularly the unemployed) to later transition into stable employment.² These findings advance the intriguing possibility that it might be beneficial to encourage low-skilled workers to take temporary agency jobs as a 'stepping stone' into the labor market. However, it is not entirely clear that the positive correlation between obtaining temporary help agency employment and finding stable employment should be used to guide policy. In practice, it is difficult to disentangle the respective roles of worker characteristics and job characteristics in engendering success in the labor market.³ Thus, to establish the true effect of temporary help agency employment on labor market advancement, something akin to a randomized-controlled experiment would be ideal.

In the research summarized here, David Autor and Susan Houseman took advantage of a unique, multiyear policy "experiment"—the quotation marks are used to emphasize that the experiment was created by circumstance rather than by deliberate intention—to provide direct evidence on the longer-term labor market effects of tempo-

The research summarized here is reported at length in David H. Autor and Susan N. Houseman, "Temporary Agency Employment as a Way out of Poverty?" which appears as a chapter in *Working and Poor: How Economic and Policy Changes Are Affecting Low-Income Workers*, ed. R. Blank, S. Danziger, and R. Schoeni (New York: Russell Sage Foundation, December 2006; see box p. 7).

David H. Autor is Associate Professor of Economics at the Massachusetts Institute of Technology and Susan N. Houseman is Senior Economist at the W. E. Upjohn Institute for Employment Research. A previous *Focus* article by these authors is "The Role of Temporary Employment Agencies in Welfare to Work: Part of the Problem or Part of the Solution?" *Focus* 22, no. 1 (Special Issue, 2002): 63–70. rary sector employment. In particular, they used quasiexperimental data from a Michigan welfare-to-work program, "Work First."

What might be the consequences of temporary help employment for poor and unskilled people? Some argue that temporary help agencies, which face lower employee screening and hiring costs than do direct-hire employers, may choose to hire individuals who otherwise would have difficulty finding any job at all. Such workers will thereby more quickly find work; they may begin to develop the skills and labor market contacts that ultimately lead to more stable and better-paying jobs. But a case can also be made that temporary help agencies provide few opportunities or incentives for workers to develop skills and networks, instead offering a series of unstable, lowskilled, low-paid, dead-end jobs.⁴ Worse, spells of temporary employment may divert individuals from more productive searches for stable, longer-term employment.

Both these scenarios could be correct. In some situations companies may use temporary agencies to screen individuals for permanent jobs with good pay, benefits, and career ladders. For social welfare policy, however, what matters is the effect of temporary employment on the low-skilled workers targeted by government programs. The empirical analyses Autor and Houseman report here suggest that shortterm benefits from temporary agency employment do not persist, and that over the longer term—a year or more participants placed in temporary jobs are no better off than if they had received no job placement at all.

The "Work First" program in Michigan

To meet the requirements of federal welfare legislation, most states, including Michigan, implemented a "work first" strategy after 1996. Applicants to Temporary Assistance for Needy Families (TANF) who did not already meet mandatory work requirements were obliged to participate in welfare-to-work programs, called Work First in Michigan, to help them find employment. Michigan required most TANF recipients to work 40 hours a week to remain eligible for assistance.

In Michigan, the state Department of Human Services determined welfare eligibility and TANF benefits, but local agencies administered welfare-to-work programs. Autor and Houseman studied the Work First program operating in Detroit, which was divided into geographic districts; within each geographic district, one to three nonprofit private or public agencies contracted to provide employment services. When multiple contractors provided Work First services within a district, they took turns enrolling applicants. In these districts the distribution of participants among contractors was thus equivalent to random assignment.⁵ At the time this study was undertaken, Work First participants were required to treat the program as if it were a job and to spend 40 hours a

week in program activities or job search until they were successful. If they failed to meet their obligations, they were terminated from Work First and faced sanctions including, ultimately, an end to TANF benefits.

The Work First program structure and set of services were largely standardized among contractors. Contractors typically spent one week providing new participants with basic job search skills and strategies-skills assessment and employability planning, interviewing and presentation, and life-skills training. Except for "tech-prep" courses, which quickly reviewed skills that might be tested, they provided little in the way of remedial, vocational, or computer skills training. After the first week, participants were expected to look for jobs full time. Virtually all contractors provided individual job search assistance and referrals to specific employers. They accompanied participants to job fairs, brought employers on site to recruit participants, and sponsored activities such as job clubs. Participants were required to take any job offered them that paid the federal minimum wage and satisfied work hours requirements.

Once participants found suitable jobs, contractors had to follow up with them and their employers until the participant earned enough to terminate the TANF case or was terminated from the program (usually for noncompliance).⁶ The Work First provider's contract with the city was for one year, and the contractor's performance was evaluated by the fraction of participants who got jobs and the percentage who held those jobs for 90 days.

To examine the effects of temporary agency employment on the low-skilled workers in the Work First program Autor and Houseman drew on two types of evidence. The first is a telephone survey of Work First contractors operating in Detroit, conducted from fall 2004 to spring 2005. The second comprises state administrative and earnings data on all participants who entered the program from 1999 to 2003. The Work First data included demographic information on Work First participants and detailed information on the jobs they found. The state Unemployment Insurance records enabled the researchers to track the earnings and labor market histories of participants both during the program and earlier. In all, they examined some 36,000 Work First spells of activity.⁷ Their data covered 9 geographic districts in which 25 contractors operated programs.

The Work First participants in the sample were predominantly female (94 percent) and black (97 percent). Their average age was 30, and over a third had not completed high school. Slightly under half of the women found jobs while in Work First. Among participants who found jobs, about 20 percent held jobs through temporary help agencies while the remaining 80 percent obtained direct-hire jobs. Relative to those who obtained temporary help or direct hire-jobs, those who did not obtain any job were more likely to have dropped out of high school, had



Figure 1. Contractors' contacts with temporary work agencies.

worked fewer quarters before entering the program, and had lower prior earnings.

Contractors and temporary employment agencies: Findings from the survey

In the telephone survey, Autor and Houseman interviewed the heads of 21 contractor organizations that had operated programs when participants in the study were enrolled in Work First. They found almost no differences among contractors' resources or program services that might affect what happened to participants. They sought to determine if contractors played a significant role in whether participants found jobs and, by implication, in where they found them. Contractors themselves estimated that they were directly involved in around 75 percent or more of job placements, through referrals, on-site visits, and the like. Most strikingly, contractors varied substantially in the amount of exposure to temporary agency work that they provided to participants and in the proportion they placed in such jobs (Figure 1). Among the 17 contractors who provided an estimate, the median placement rate of clients in temporary agency jobs was 15 percent; three contractors reported that 5 percent or fewer of job placements were with temporary agencies, and three others reported that agency placement accounted for a quarter, a third, and three-quarters of all such placements. Placement with a temporary agency was closely correlated with the frequency of agency visits and referrals-a finding that tends to confirm the significant influence of the contractors on whether or not clients obtain temporary help jobs (even allowing for some inflation in their reporting).

The variability in contacts and placement reflects large differences among contractors' views of the value of temporary agency placement. Of the 21 contractors, 13 claimed to take a neutral stance on the issue, five discouraged temp jobs, and three reported that they encouraged such jobs. Over threequarters of contractors thought that direct-hire jobs lasted longer and were more stable, and more than half thought they paid as well or about the same as temporary agency jobs. All who discouraged temporary agency jobs, and most of those who were neutral, believed that temporary agency jobs generally did not lead to permanent positions. Even two of the three who encouraged temporary agency employment said they did so only in cases when the position was explicitly "temp-to-hire" or when direct-hire options were poor. There was little disagreement about the benefits of using temporary help agencies for temp-to-hire placements. But interviewees noted that companies screening for permanent employees through an agency were usually looking for more skilled workers. Such workers would be relatively easy to place in either direct-hire or temporary agency positions.

Work First providers faced real difficulties in placing participants with very low skills, little or no work experience, or poor work ethics—individuals for whom directhire positions are often scant. Contractors were also under considerable pressure to increase their job placement rates. Given such constraints, over half the contractors thought that temp agency jobs were easier for those with weak skills or experience to obtain; indeed, 43 percent viewed such jobs as the only realistic alternative to unemployment for some participants. These contractors believed that some clients were simply not ready to hold a permanent job, and that agencies could play a role in giving them work experience and an understanding of employers' expectations. Temporary employment allowed participants to sample different jobs, make contacts with many different employers and, if they did not like a particular job, request reassignment to avoid the stigma of quitting. Flexibility in work scheduling was also widely cited as an advantage of temp work—almost two-thirds of contractors thought that temporary agency jobs were better at accommodating participants' needs.

Contractors who worked with temporary help agencies tended to stick to one or more agencies with which they had developed specific relationships and clear understandings about the duration of job assignments and the prospects for permanence. They avoided agencies that offered very short-term employment, for example, assignments with day-labor agencies.

The long-term consequences of temporary agency placements

The most important question for welfare-to-work policy is whether temporary agency placements foster stable, longer-term employment, ideally at wages that can support a family. On this, contractors did not agree. More than half of the contractors believed that temp placements helped participants develop confidence, but there were offsetting effects. A majority thought that temp placements allowed participants to avoid making a serious commitment to employment. For one thing, a contractor commented, a temporary agency job "allows a person to stay compliant with Work First requirements, so they can't be terminated from the program. But unless the job is temp-to-hire, they will end up back in the program. It could be six months, it could be a year later, but they will end up back in the program, in the same place. They won't have made any advances."

The divergent policies and practices of contractors who provided services to the same Work First population and operated in the same labor market resulted in different rates of placement into temporary-agency jobs, directhire jobs, or no job. Coupled with the random assignment of participants among contractors, these different practices enabled Autor and Houseman to identify the longerterm labor market effects of temporary agency placements, in particular, their effect on the probability of leaving welfare and escaping poverty.

What the administrative data say

A key challenge, as noted above, for any empirical investigation of this sort is establishing a chain of cause and effect. It is not possible simply to compare subsequent employment and earnings among Work First participants who obtain direct-hire jobs, temporary jobs, or no job while in the program, because these participants have very different characteristics. Those placed in direct-hire and temp jobs had higher earnings during the next two years than those not placed in a job. But they also had significantly higher levels of education and earnings *before* they entered Work First. And because participants' observable characteristics—such as education and prior earnings—differed, it is highly likely that their unmeasured characteristics, such as motivation and employment barriers, also differed.

In the Autor and Houseman study, the quasi-experimental nature of the Detroit Work First program was key to identifying the true effects of placement into a temporary help job, a direct-hire job, or no job on subsequent employment, earnings, and welfare outcomes. As noted above, Work First participants were, in effect, randomly assigned to contractors, and so contractors operating in the same district had comparable populations (more precisely, identical populations in a statistical sense). These contractors had different job placement practices, however, but otherwise provided virtually identical services.

Estimating the longer-run effects of temporary sector employment

Using this quasi-experimental design, Autor and Houseman estimated how the Work First participants would fare over time if they were placed in a direct-hire or a temporary agency job, relative to no job at all.8 Both direct-hire and temporary placement significantly increased participants' employment and earnings (relative to no job placement) over the quarter following program entry. Direct-hire placements continued to do so for two years after program entry. In contrast, the early positive effects of temporary agency job placements were short-lived. Two to eight quarters following their entry into the program, the employment and earnings of those initially placed in temporary agency positions showed no increase at all in employment or earnings, relative to those with no placement. And those in temp positions had significantly lower employment rates and labor earnings than those in direct-hire jobs.

To examine whether temporary agency placements helped participants leave welfare and escape poverty, Autor and Houseman used several measures. First, they determined the proportion of participants who left Work First because they had obtained a job that paid enough to close their TANF cases. This is the immediate and explicit goal of the Work First program, so that a case closed because of earnings is considered to be an indicator of the success of the program. Overall, about 18 percent of Work First spells in the sample ended because of earnings. About 38 percent of participants with a direct-hire job and 33 percent of those with a temporary agency job achieved earnings levels sufficient to close their TANF cases during their Work First spell. Using the

Table 1	
Participants with Earnings Sufficient to Escape Welfare or Poverty, during the Two Years after Their Work Fi	rst Orientation

	Welfare Threshold, Family of 3	Welfare Threshold, Family of 4	Poverty Threshold, Family of 3	Poverty Threshold, Family of 4			
	Quarter 1 (N = $36,105$)						
No job	6.7 %	5.4 %	3.4 %	2.1 %			
Direct-hire job	21.3	17.0	9.9	5.2			
Temp job	21.1	16.4	9.7	5.2			
	Quarters 1-4 (N = 36,105)						
No job	9.1	7.1	4.2	2.2			
Direct-hire job	22.1	17.5	10.0	5.3			
Temp job	21.3	17.1	9.5	5.4			
	Quarters 5-8 (N = 25,118)						
No job	12.2	10.1	8.8	5.1			
Direct-hire job	19.8	16.5	15.0	8.5			
Temp job	19.3	16.0	14.5	8.9			

Note: Panels labeled Quarter 1 and Quarters 1–4 include Work First participants entering from the third quarter of 1999 through the second quarter of 2003. Participants in the last panel (Quarters 5–8) entered from the third quarter of 1999 through the second quarter of 2002.

quasi-random-assignment design, the authors find that direct-hire job placements significantly increased the probability of a successful case closure based on earnings, but temporary agency employment did not.⁹

The case-closure measure was important to contractors because they were evaluated by it, but from a broader policy perspective it is potentially flawed. Participants who do not find a job while in the program may find employment on their own and leave welfare, but are not counted as "successes" by this measure. And individuals who are terminated because of earnings might lose the job and be back on welfare and in Work First in a relatively short time. To overcome these difficulties, Autor and Houseman examined whether participants earned enough over a longer time to end their dependence on welfare and escape poverty. Because the data did not allow them to compute individual welfare and poverty thresholds for the sample, they selected several thresholds as measures of success. They used both welfare and poverty thresholds because the income threshold for welfare benefits is considerably below the poverty level for any given family size. In Michigan, earnings needed to cut welfare benefits for a family of three with two dependent children, for example, were \$9,504 in 2003, only 64 percent of the poverty level.

Relatively few participants attained earnings even above the lowest threshold, as Table 1 shows. In the first four quarters after program entry, for example, just over 20 percent of those with either type of job earned above the welfare threshold for a family of three. In the first year after they entered the program, around 5 percent of those working earned above the poverty threshold for a family of four with three dependent children.

Regression analyses which took advantage of the agency variation in placement rates to identify the effect of tem-

porary employment showed different short- and mediumterm effects. They indicated that in the near term (the first quarter after program entry), both direct-hire and temporary employment significantly raised the probability that participants' earnings would exceed the welfare or poverty thresholds. The picture was distinctly different when the time horizon was extended. Direct-hire jobs significantly increased the probability that earnings would exceed the income level necessary for a family of three or four to remain off welfare for the two years after entry. For example, the earnings of a woman placed in a directhire job were more likely to exceed the welfare threshold for a family of four by 5.9 percentage points in the first year and by 10.8 percentage points in the second year. In contrast, temporary agency placements did not appear to help participants stay off welfare. The effects of such placements on the probability of earning above the welfare threshold were insignificant and even negative (though very small).

For the higher poverty thresholds, neither temporary agency nor direct-hire placements helped participants escape poverty over the one-to-two-year period following their entry into the program. And relative to direct-hire placement and even to no placement at all, the effects of temporary agency placement on the probability that participants earned above the poverty threshold for a family of four in the year after entry were significantly *negative*, though again small.

Should employment programs use temporary agency placement?

These analyses found no evidence that suggests that employment programs would gain by increasing the use of temporary employment agencies as labor market intermediaries for low-skilled workers. Although such agencies did raise the probability that Work First participants earned above the welfare and poverty thresholds over very short time horizons, these effects quickly dissipated. Over one to two years, temporary agency placements did not increase the chances that participants would earn enough to leave welfare and escape poverty, and by some measures they even reduced these chances. Raising the number of direct-hire placements is likely to be a much more effective means for job assistance programs to reduce welfare dependency over the short and the long term.

These results do not imply that temporary agency jobs never improve long-term outcomes for participants. Certainly such cases occur on a regular basis. What the Autor and Houseman analysis shows, however, is that, on average, the benefits of temporary help job placements induced by job assistance programs are nil. Thus, the Autor and Houseman analysis directly addresses the germane policy question "Can job assistance programs improve labor market outcomes for participants by placing more clients in temporary agency positions?" Their analysis suggests the answer is generally "No."

Why should this be the case? The analysis suggests some plausible explanations. Contractors reported that temporary help jobs were more plentiful than direct-hire jobs, particularly for those with weak skills and experience, but generally did not lead to permanent positions. According to contractors, some temporary agency jobs could provide useful entrees into permanent placements with good employers. But these temp-to-hire jobs generally required skills and experience that their clients typically did not possess. The researchers' estimates indicate that temporary agency placements subsequently resulted in increased earnings in the temporary help sector but reduced earnings in direct-hire jobs. This implies that many of the participants who obtained temporary help jobs through job assistance programs would have been likely to obtain direct-hire work on their own (perhaps after a longer period of job search). The analysis also finds some evidence that participants placed in temporary agency jobs are more likely than other participants to continue working in the temporary help sector and more vulnerable to frequent spells of non-employment and shorter periods of work. Indeed, participants placed in temporary help jobs during the first Work First spell were significantly more likely to be back on welfare within two years than were participants placed in direct-hire jobs.

Some of the contractors interviewed held the view that a certain segment of the temporary agency market accommodated individuals with very weak skills, experience, and motivation to work by providing them with jobs that required few skills and no long-term commitment. Yet these are precisely the qualities that tend to keep such individuals in poverty. It is plausible that job placements that might help individuals overcome rather than accommodate these barriers will be more beneficial in the long run. And to that end, an incentive structure for contractors that stresses longer-term outcomes might reduce welfare dependence and poverty levels by easing the pressures on program providers to move participants quickly into any job available, whether or not these jobs are likely to offer longer-term benefits to participants.

¹In 1999, African Americans were overrepresented in the ranks of temp workers by 86 percent, Hispanics by 31 percent, and high-school dropouts by 59 percent; college graduates, by contrast, were underrepresented by 47 percent (M. DiNatale, "Characteristics and Preference for Alternative Work Arrangements, 1999," *Monthly Labor Review* 124, no. 3 [2001]: 28–49). On temporary sector employment among welfare recipients, see, e.g., C. Heinrich, P. Mueser, and K. Troske, "Welfare to Temporary Work: Implications for Labor Market Outcomes," *Review of Economics and Statistics* 87, no. 1 (2005): 154–73 (on North Carolina and Missouri); M. Cancian, R. Haveman, T. Kaplan, and B. Wolfe, *Post-Exit Earnings and Benefit Receipt among Those Who Left AFDC in Wisconsin*, IRP Special Report 75, University of Wisconsin–Madison, 1999.

²Heinrich and colleagues, "Welfare to Temporary Work"; M. Ferber and J. Waldfogel, "The Long-Term Consequences of Nontraditional Employment," *Monthly Labor Review* 121, no. 5 (1998): 3–12; and M. Corcoran and J. Chen, "Temporary Employment and Welfare to Work," unpublished paper, University of Michigan, 2004.

³H. Holzer, "Encouraging Job Advancement among Low-Wage Workers: A New Approach," Welfare and Beyond Policy Brief no. 30, Brookings Institution, Washington, DC, 2004; J. Lane, K. Mikelson, P. Sharkey, and D. Wissoker, "Pathways to Work for Low-Income Workers: The Effect of Work in the Temporary Help Industry," *Journal of Policy Analysis and Management* 22, no. 4 (2003): 581–98.

⁴For discussions of the various hypotheses, see D. Autor, "Why Do Temporary Help Firms Provide Free General Skills Training?" *Quarterly Journal of Economics* 116, no. 4 (2001): 1409–48; S. Houseman, "Why Employers Use Flexible Staffing Arrangements: Evidence from an Establishment Survey," *Industrial and Labor Relations Review* 55, no. 1 (2001): 149–70; and H. Jorgenson and H. Riemer, "Permatemps: Young Temp Workers as Permanent Second Class Employees," *American Prospect* 11, no. 18 (2000): 38–40.

⁵For an analysis of the random nature of the assignment, see D. Autor and S. Houseman, "Do Temporary Help Jobs Improve Labor Market Outcomes for Low-Skilled Workers? Evidence from Random Assignments," Working Paper 05-02, National Poverty Center, University of Michigan, Ann Arbor, September 2005.

⁶The median Work First spell in our sample was slightly under 3 months, and 96 percent of participants were terminated from the program in less than a year.

⁷Many participants engaged in more than one Work First spell—36 percent of the sample reentered Work First within a year of their first entry and over half were back within two years.

⁸We estimated both OLS and two-stage least squares models; the latter permit a causal interpretation.

⁹Our two-stage least squares models indicate that direct-hire placement significantly increased (by nearly 25 percent) the probability that a participant would reach this earnings level. Temporary agency employment, although still positive (11.5 percent), is insignificant.

Working and Poor: How Economic and Policy Changes Are Affecting Low-Wage Workers

Rebecca M. Blank, Sheldon H. Danziger, and Robert F. Schoeni, editors

Over the last three decades, large-scale economic developments, such as technological change, the decline in unionization, and changing skill requirements, have exacted their biggest toll on low-wage workers. These workers often possess few marketable skills and few resources with which to support themselves during periods of economic transition. In *Working and Poor* various scholars examine how economic and policy changes over the last twenty-five years have affected the well-being of low-wage workers and their families.

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