Temporary downturn? Temporary staffing in the recession and the jobless recovery

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The temporary staffing industry (TSI), once a relatively marginal player in the U.S. economy, has recently assumed a significant role as a large-scale labor market "mediator." The TSI and its temporary workforce now account for a disproportionate share of the burden of labor market adjustment. Focusing on the recession of 2001 and the wider employment slowdown of 2000–2004, this article examines the distinctive role of the industry in the American labor market. During the course of the last three decades, we suggest, the TSI has moved from the role of stopgap-staffing provider, supplying short-term cover for eventualities like maternity leaves and seasonal spikes in demand, to a more systematic and continuous role as an intermediary between companies and their preferred labor supplies across a broad array of industries and occupations. In this much wider role, the TSI is increasingly shaping processes of labor market adjustment at a macroeconomic scale. The TSI effectively delayed and weakened the jobs recovery after the recession. It also intensified the impact of the recession, the burden of which was disproportionately carried by temp workers.

The unprecedented wave of temporary job losses around the time of the 2001 recession, which saw the TSI lose one-fifth of its workforce in the space of a few months, would be viewed as a catastrophe for most industries. Yet this capacity to absorb and displace labor market shocks is very much part of the rationale of the TSI. The course of the recession and the subsequent "jobless" recovery emphasizes the unique nature of the TSI and its product—mediated labor.[1] Temporary staffing agencies derive their income from fees charged to employers for the temporary employment of workers registered with the agency. Temps are paid directly by the agencies, which in legal terms are the employer of record. The workplaces to which temps are assigned—in occupations as diverse as clerical work, general laboring, accountancy, and nursing—therefore become little more than places of work. The temp employment relationship, in formal terms, is focused on the agencies themselves.

The spectacular growth of temporary employment in the United States—from less than a quarter million in the early 1970s to a daily workforce of nearly 2.7 million in 2000—has been greeted with periodic forecasts that the "death of the job" is imminent.[2] In fact, fewer than three jobs in every hundred in the United States are filled by temporary staff on a typical working day. But visualizing the temporary workforce as if it were in a zero-sum relationship with the permanent workforce misses the true significance of these employment practices.

Staffing agencies have assumed important new roles in screening, recruitment, placement, and reassignment; in job design; in supervision and labor control; and in the structuring of remuneration and incentive systems. These diverse functions of the TSI, which over the past three decades have become interwoven with mainstream employment practices across the economy, illustrate the wider effects of mediated contingent work in ways that simple head counts of temporaries cannot. By positioning themselves between the worksite employer and the employee, staffing companies shield firms from many of the costs of workforce management, remuneration, and adjustment. Worksite employers are not liable for unemployment insurance or workers' compensation claims, nor do they have to pay employee benefits such as health insurance and pensions.

It has become clear that mediated work arrangements are here to stay, not just for a few firms and industries, but across large sectors of the labor market. But we seem to be witnessing more than the proliferation of "triangulated" employment relationships.[3] Instead, we draw attention here to the emergence of a triangulated employment structure, within which the reach and significance of mediated work relationships has been markedly extended. A key piece of evidence is the weight carried by the TSI and its workforce during the most recent recession, which was significantly out of proportion to its share of jobs or GDP. In our view, the recession of 2001, the phase of temporary employment growth that preceded it, and the period of extended labor-force restructuring that is following in its wake together represent a watershed in both the evolution of the TSI and the wider economy.

The changing role of the TSI

"Bad times don't affect us much," the manager of a Chicago temporary staffing business confidently proclaimed in the mid-1990s, echoing sentiments common in the industry at the time.[4] In the wake of the recession of the early 1990s, the TSI had experienced double-digit rates of annual growth, and the secular prospects looked just as promising.

The 1990-91 recession had hardly been painful for the TSI: it had lost just 5.1 percent of its workforce during the downturn, recovering very quickly as cautious employers again saw the attraction of hiring temps on a no-commitments basis. During this time, in which "downsizing" entered the popular lexicon, employers increasingly turned to staffing agencies to help transform their workforces on a more flexible basis and manage the costs of future business fluctuations.

This was the prelude to the TSI's most successful decade. Temporary employment growth was sustained at a high rate throughout the long boom of the 1990s. Riding the rising market, many temp agencies convinced themselves that the business had become acyclical. The oft-repeated line was that employers would turn to temp services in tight labor markets in order to access workers, but they would still be there in slack labor markets by virtue of increased economic uncertainty.

The large-scale shakeout of temporary jobs that occurred just before, during, and after the 2001 recession saw industry revenues fall by 10.4 percent. But it was the TSI's workforce that bore the brunt of the downturn, as census and industry sources reveal that total employment in the sector plummeted by 21–28 percent—between four and five times the rate of TSI job loss experienced in the early 1990s recession.[5] In nine years of strong growth after 1991, the TSI had added more than 1.5 million new workers; the subsequent downturn removed between one-third and one-half of this newly mobilized temporary workforce. During the 9-month course of the officially designated recession of 2001, temp agency workers—which as a group represented just 2.5 percent of the workforce—accounted for fully 23 percent of net job losses in the labor market.

That such a relatively small sector of the U.S. labor market could absorb close to one-quarter of economy-wide net job losses speaks to the unique function of mediated work practices like temporary staffing in periods of intense restructuring. During the boom years of the 1990s, many large organizations embraced a policy of continuous workforce restructuring in which temporary staffing became an important element. This meant, however, that large-scale workforce fluctuations would reverberate through the TSI as never before. As the economy slipped into recession, the TSI was called upon to carry much of the strain of initial layoffs. A simple measure of the elasticity of temp employment can be derived by calculating what might be termed the "flexibility quotient"—the ratio of the share of aggregate, economy-wide job losses accounted for by the TSI over the TSI sector's share of the employment stock—which rose from 3.8 in the early 1990s recession (i.e., the TSI's share of national job losses was 3.8 times its share of the employment stock) to 10.7 in the recession of 2001.

Such findings lend credence to arguments, from a range of perspectives, that the TSI is beginning to assume an important and ongoing "macroregulatory" role in the U.S. labor market, providing a means to manage and dissipate the effects of product market and personnel fluctuations, to tap skills required on a discontinuous basis, and to (re)establish a form of at-will employment relationship among some segments of the labor supply. Lawrence Katz and Alan Krueger have estimated that, by facilitating more flexible employment arrangements and efficiently connecting jobseekers to temp jobs, the activities of the TSI accounted for half of the nationwide reduction in unemployment during the 1990s.[6] They also argued that in counteracting labor shortages and placing downward pressure on labor costs, the TSI contributed to macroeconomic efficiency by alleviating inflationary pressures. Whether or not these specific contentions are accepted, the TSI can be seen to have played a structural role in both growing and increasing the flexibility of the labor supply under extremely tight job-market conditions, bringing about changes to the functioning of labor markets that have been characterized as permanent.[7]

The TSI in recession and recovery

It is now well established that the last two phases of recession and recovery in the United States have broken with historical trends in a number of ways, not least their anemic postrecession employment performance. Although there is continued debate about the causes of the jobless recoveries in the early 1990s and the early 2000s, it is increasingly acknowledged that the robust job growth that was once a typical feature of recoveries may be a thing of the past. Moreover, the fact that the recovery following the 2001 recession has been even weaker than its predecessor—spawning the neologism "jobloss recovery"—has focused attention on the particularities of recent labor-market history.

In the recovery following the 1981 recession, increases in temporary employment accompanied overall job growth, with temporary workers accounting for an exaggerated, but modest 5.4 percent of net employment growth after 12 months of recovery, 4.4 percent after 24 months, and 4.2 percent after 30 months (see Figure 1). In the weak recoveries following the 1991 and 2001 recessions, however, total employment has been slow to rebound, while the TSI has assumed a significantly larger role. Between March 1991 (the end of the recession) and March 1992, the economy continued to lose jobs, despite an increase in temporary employment during the period. Within two years, however, sustained employment growth had been restored (although some 22 percent of net job growth was accounted for by temporary positions).

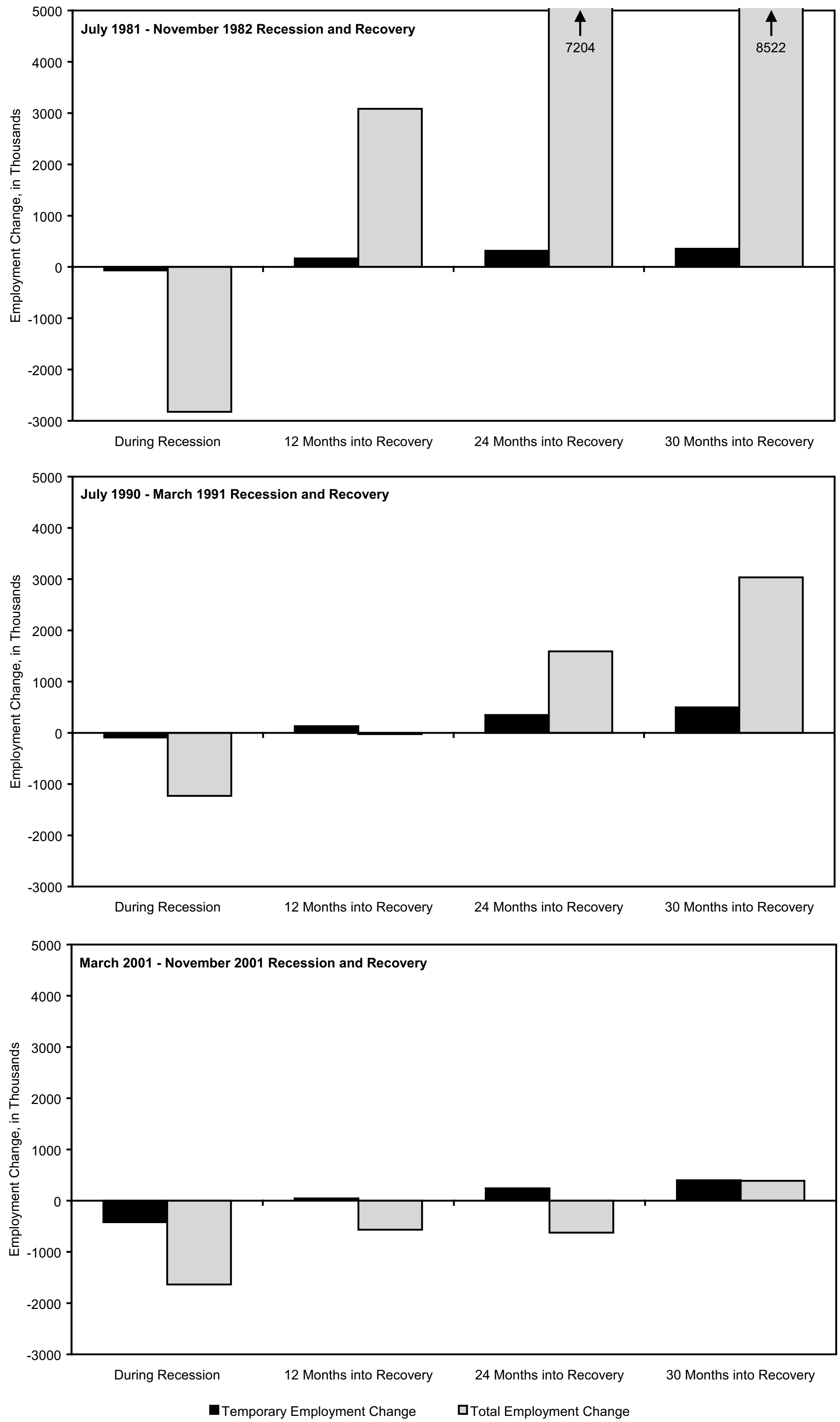

Figure 1. Changes in temporary and total employment.

Source: U.S. Bureau of Labor Statistics, unpublished data.

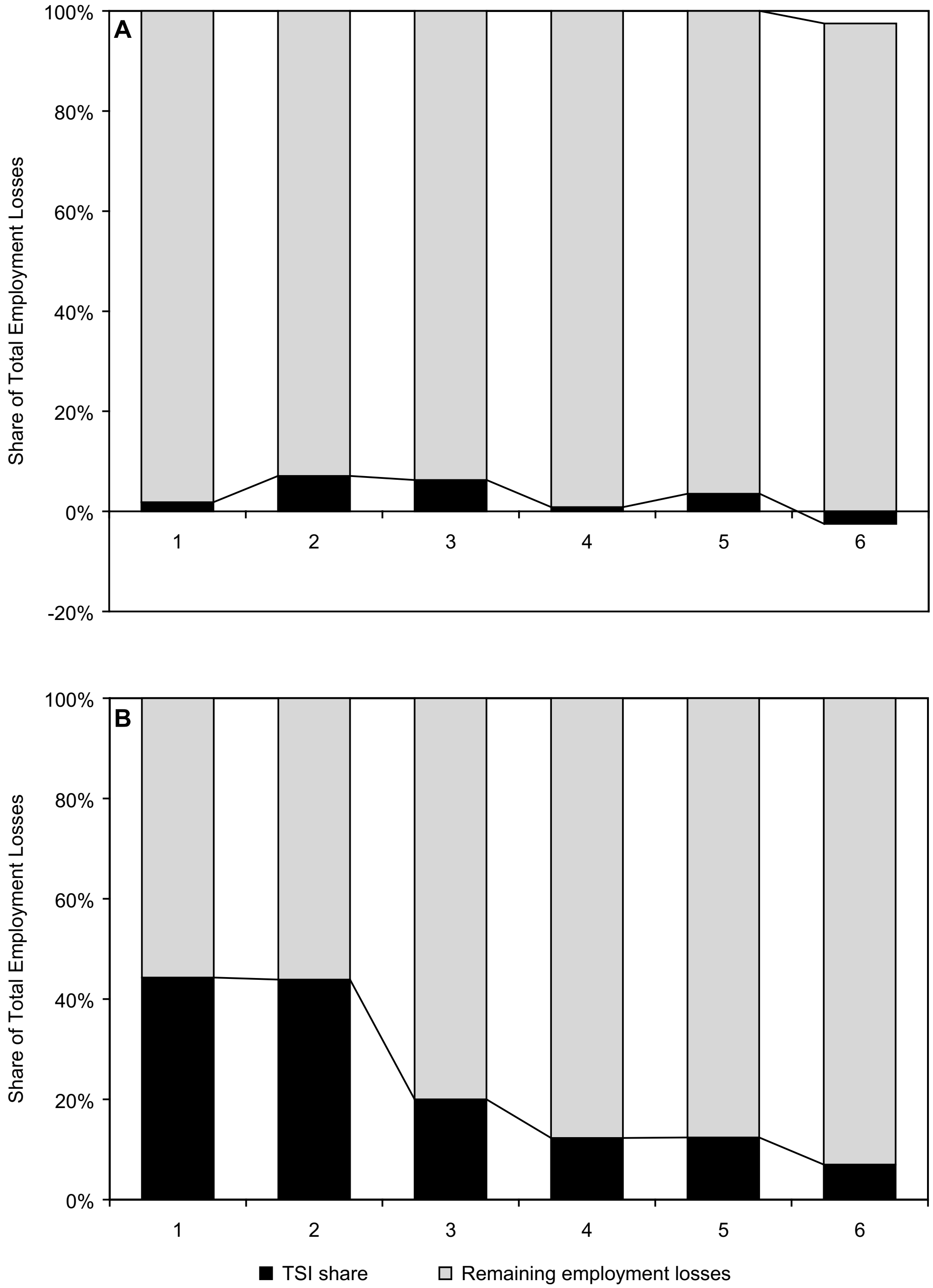

Figure 2. TSI employment losses as a share of total employment losses, 1990-91 recession and 2001 recession, United States. A. July 1990 recession and ensuing employment slowdown, bimonthly periods; B. March 2001 recession and ensuing employment slowdown, bimonthly periods.

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.

The jobless recovery of the 2000s revealed that this new dynamic between temporary employment and the wider labor market had become entrenched. As the bottom panel of Figure 1 shows, only after 30 months of recovery did the economy began to add jobs overall, with the TSI continuing to play a leading role. This suggests that a qualitatively different tradeoff has come into play in the relationship between the hiring of temporary and permanent workers in the course of the two jobless recoveries. Not only are employers adding temporary workers well in advance of permanent employees (as has been the pattern over the past 30 years), flexible employment strategies now appear to be a central feature of an elongated process of workforce adjustment, as employers add workers employed in temporary contracts, while continuing to shed permanent employees.

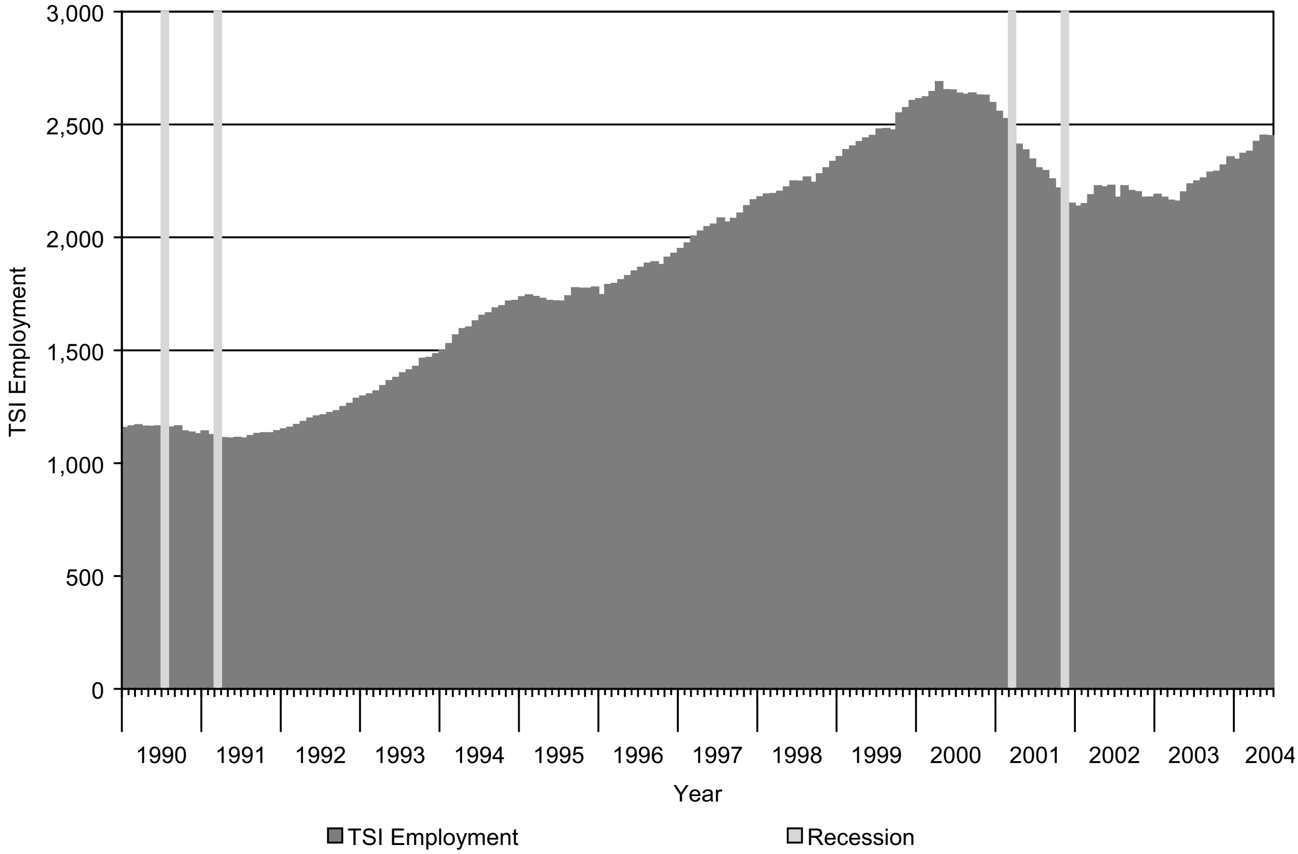

Figure 3. TSI monthly employment across the business cycle, United States, 1990–2004.

Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.

During the nine recoveries prior to the 2001 recession, GDP growth averaged 4.3 percent in the first nine quarters following the recession, employment growth averaged 1.8 percent, and productivity growth averaged 3.1 percent. In the aftermath of the recession of 2001, however, GDP growth occurred at a rather more sluggish 3.4 percent, but employment growth was actually negative, at -0.1 percent, while productivity growth surged to 5.1 percent. There is evidence that the shift toward flexible and mediated work arrangements is playing a significant role in this process of work intensification, though it is clearly not the only factor in play (Robert Pollin attributes this historically weak employment performance to well-established forces like speed-up—"a decidedly old-fashioned, low-tech source of productivity growth," as well as to factors like the movement of jobs overseas and IT productivity gains).[8] In their analysis of the last two (jobless) recoveries, Stacy L. Schreft and Aarti Singh plausibly conclude that firms have become more likely to substitute more flexible labor inputs—like temp and part-time work, and increased overtime—for less flexible ones:

> The very availability of just-in-time employment practices can contribute indirectly to the joblessness of a recovery. Just-in-time employment lets firms wait and see that a recovery is robust before hiring, yet still expand production on short notice by hiring temps and using overtime. It allows them to lay off workers and delay hiring to a greater extent, which is exactly what happened in the jobless recoveries [of the early 1990s and early 2000s].[9]

In this context, staffing companies have become important institutional actors. Just as they were attributed a significant, structural role in driving down rates of unemployment to record lows during the 1990s boom,[10] it would seem that they have performed an equally important function in the post-2001 recovery, albeit now in the form of tempering sustained employment growth. No longer, it seems, is the TSI merely a leading indicator of wider labor market conditions. Increasingly, it is implicated in establishing and maintaining these conditions.

In the early months of the 2001 recession the TSI shouldered the brunt of economy-wide job losses. Its share of economy-wide net job losses during the first four months of the recession was 44 percent, more than 17 times the sector's share of the total employment stock (see Figure 2). All told, during the course of the 2001 recession, the TSI eliminated 370,200 temp positions, reducing employment in the industry to 1997 levels. These job losses are especially striking given that the TSI had experienced

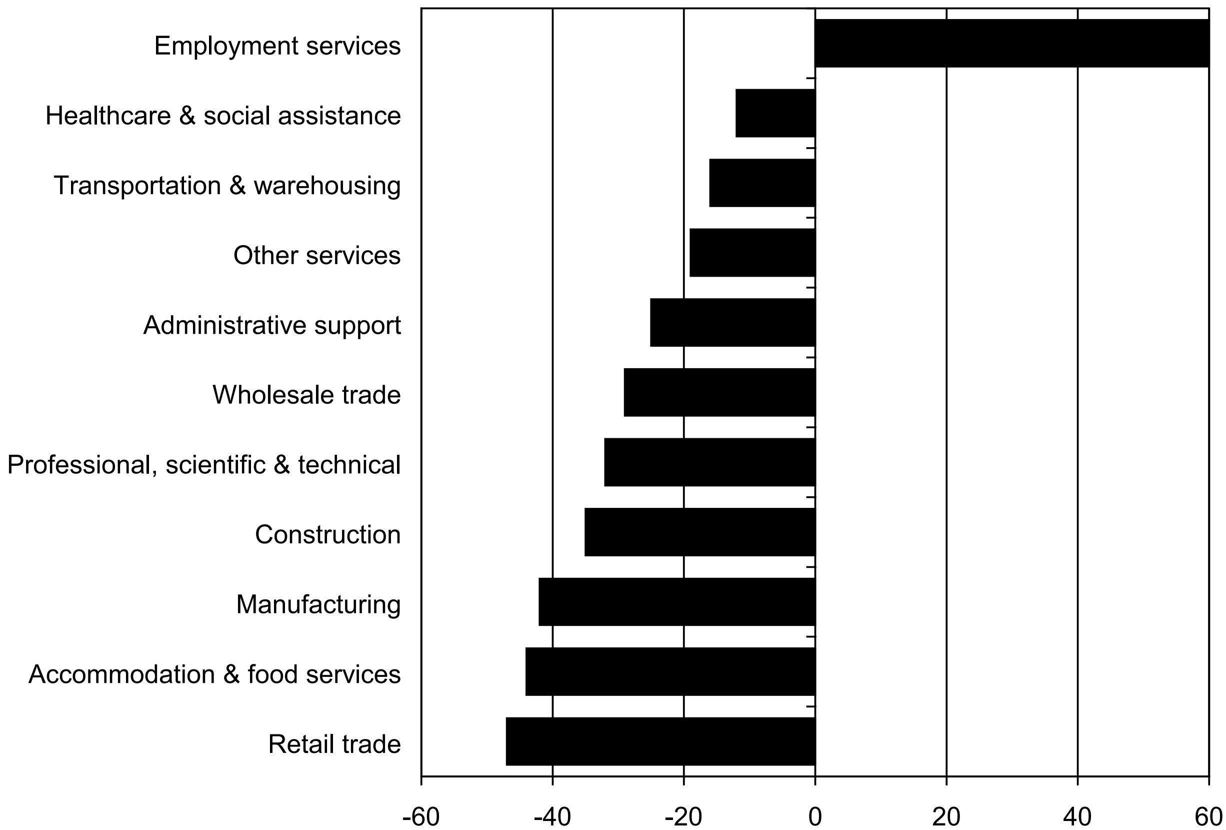

Figure 4. Percentage change in Unemployment Insurance weeks claimed by industry, selected states, United States 1993-2000.

Source: US Department of Labor, Employment & Training Administration, unpublished data, 2001.

Note: states include Arizona, California, Florida, Illinois, Massachusetts, New York, Texas, and Washington.

a net loss of daily placements in 9 of 10 months preceding the onset of the recession, even as employment growth among the permanent workforce was maintained. In addition, it continued to contract for several months after November 2001, when the recession was officially declared over. By the time TSI employment levels stabilized in early 2002, the industry had lost 552,000 jobs, or 20.5 percent of its peak employment.

Comparison of the 2001 recession and its predecessor (see Figure 2) shows a marked increase in the absorptive capacity of the TSI between these two recessions. Although the total size of the TSI increased significantly during the 1990s boom (when employment in the sector rose by 122 percent), the industry's macroeconomic elasticity, its capacity to absorb large-scale job fluctuations, grew considerably faster. At its peak, the TSI never carried more than 13 percent of monthly economy-wide job losses in the early 1990s recession. Its peak absorptive capacity during the 2001 recession was more than three times this level, at 44 percent.

The TSI not only grew strongly during the 1990s, it also became much more deeply embedded in the wider economy. Sales increased almost fourfold, from $17 billion in 1990 to $64 billion in 2000, and daily placements rose from 1.1 million in 1991 to more than 2.5 million by the end of the decade.[11] During the course of the 1990s, some 108 million employment placements were made by staffing companies. The largest share of TSI market growth came from manufacturing: it was estimated that one-third of temp placements in the 1990s were in factories, which if added to manufacturing payrolls would largely cancel out—at least in quantitative terms—aggregate job losses in the sector during the decade.[12] Even though growth rates slowed in the second half of the 1990s, as the industry encountered a problem of worker shortages in historically tight labor markets, the expansion continued, with daily employment peaking at 2.69 million in April 2000 (see Figure 3).

One indication of the structural role played by the TSI can be seen in the way that the costs of compensating unemployed workers have been progressively shifted away from worksite employers and toward the TSI and its workforce. From 1993 to 2000, temp agencies were designated as the primary employer for a growing share of UI claimants, while industries across the board, from retail to construction and manufacturing—the de facto "employers" of temporary workers—all reduced their exposure (Figure 4). In other words, during the 1990s, the TSI increasingly absorbed the costs of workforce adjustment, as industries pursued a strategy of employment externalization. This helps explain the distinctive employment dynamics of the recent flexible recession and the jobless recovery that followed. Temps were in line to absorb the brunt of business fluctuations. And they did. The TSI facilitated an especially rapid employment shakeout in the prelude to, and early stages of, the 2001 recession. And during the recovery, the TSI again did brisk business, while hiring into regular jobs remained anemic.

Conclusion

Although the TSI has been characterized as a "shock absorber" for the wider economy, the experience of the recent boom and bust in the temp business suggests that this is perhaps more appropriately characterized as shock displacement.[13] Temp agencies have proved to be remarkably efficient organizations for mediating the costs of workforce flexibility, translating the discontinuous labor demands of employers into market opportunities and reconfiguring local labor supplies in ways that are maximally responsive to these fluctuating demand-side requirements.

It is these processes, writ large, that account for many of the peculiar employment dynamics of the 2001 recession and its aftermath. The TSI is no longer just a cyclical industry; in many respects it has become part of the cycle itself. Mediated work has become a key component of the strategic calculus of personnel managers. Meanwhile, the TSI has become an important part of the infrastructure of the U.S. labor market, facilitating new kinds of employment contracting on a very large scale, and reshaping workplace and market norms in the process. The TSI now shoulders a disproportionate share of the costs and risks of economy-wide labor market adjustment. Although some would argue that this enables improved organizational efficiency at the enterprise level, many of the labor market consequences are deleterious. The establishment of the TSI as a large-scale labor market intermediator during the 1990s facilitated very rapid downsizing across the economy, whereas the subsequent employment recovery was both muted and delayed. The growing temp workforce is chronically exposed to these risks, being defined by its lack of employment protection. The last two flexible recessions, and the sluggish recoveries that followed them, may therefore signify the emergence of a distinctive pattern of labor market adjustment. In these transformed circumstances, the TSI is becoming an increasingly important player in the wider economy. ■

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[1]Economic commentators increasingly use the term "jobless recovery" to describe economic expansion without job creation. See, e.g., E. L. Groshen and S. Potter, "Has Structural Change Contributed to a 'Jobless Recovery'," *Current Issues in Economics and Finance* 98, Federal Reserve Bank of New York, 2003, and S. Schreft and A. Singh, "A Closer Look at Jobless Recoveries," *Federal Reserve of Kansas City Economic Review*, Second Quarter (2003): 45–72.

[2]See, e.g., L. Morrow, "The Temping of America," *Time*, March 29, 1993: 40–41.

[3]This triangulated employment relationship of agency-mediated temporary work has been described by H. Gottfried, "In the Margins: Flexibility as a Mode of Regulation in the Temporary Help Service Industry," *Work, Employment and Society* 6 (1992): 443–60.

[4]A more detailed discussion occurs in the full report of this research on the TSI, which draws on a program of work involving interviews with more than 75 temporary staffing firms, together with a number of investment analysts, regulators, and labor-market policy organizations, conducted between 1995 and 2003 in Chicago, Milwaukee, Tampa, Boston, Atlanta, Detroit, Los Angeles, New York, London, Brussels, and Amsterdam. In the analysis we also made use of the TSI trade press and other industry sources, as well as secondary data from the Bureau of Labor Statistics. The full report, J. Peck and N. Theodore, "Flexible Recession: The Temporary Staffing Industry and Mediated Work in the United States," is available from the authors. The research presented in this paper draws upon projects funded by the Ford Foundation and the Rockefeller Foundation. We are especially grateful to Stacy L. Schreft at the Federal Reserve of Kansas City for her advice and assistance concerning unpublished BLS data.

[5]During the TSI downturn of 2000–2004, temp payrolls shrank by between 556,000 workers (according to the Bureau of Labor Statistics count) and 740,000 (on the modified count favored by the American Staffing Association), with job losses being particularly heavy in the manufacturing segment of the business. Data used here refer to those temporary workers placed by staffing agencies. They do not include direct-hire temporaries recruited by businesses themselves.

[6]L. Katz and A. Krueger, "The High Pressure Labor Market of the 1990s," Working Paper no. 416, Industrial Relations Section, Princeton University, 1999.

[7]*Economic Report of the President* (Washington, DC. U.S. Government Printing Office, 2004).

[8]For additional discussion, see R. Pollin, "Deepening Divides in the U.S. Economy," Working Paper no. 82, Political Economy Research Institute, University of Massachusetts, Amherst.

[9]Schreft and Singh, "A Closer Look at Jobless Recoveries."

[10]Katz and Krueger, "The High Pressure Labor Market of the 1990s."

[11]S. P. Berchem, *The Bright Spot* (Alexandria, VA: American Staffing Association, 2004).

[12]*Economic Report of the President*, 2004, p. 73.

[13]M. Carnoy, M. Castells, and C. Benner, "Labour Markets and Employment Practices in the Age of Flexibility: A Case Study of Silicon Valley," *International Labour Review* 136 (1997): 27–48; C. Benner, *Work in the New Economy: Flexible Labor Markets in Silicon Valley* (Oxford: Blackwell, 2003).