



April 17, 2007

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## Staffing Industry's Positive Role in U.S. Economy

### Economic Benefits of Flexible Labor

Temporary and contract staffing firms play a vital role in the U.S. economy by providing employment flexibility for workers and just-in-time labor for businesses. Nationwide, staffing firms employed three million people on an average day in 2006 and more than 12 million over the course of the year.<sup>1</sup>

The advantages of temporary work are recognized by workers, businesses, economists, and policy makers. It affords flexibility, training, supplemental income—and a bridge to permanent employment for those who are out of work or changing jobs.

A growing number of temporary employees are highly paid and highly skilled technical, computer, and health care workers who choose temporary and contract work as a preferred employment option because of the flexibility, independence, and in some cases higher pay.

The advantages to businesses are no less significant. Businesses use temporary and contract labor because it allows them to adjust the supply of workers quickly and at a predictable cost.<sup>2</sup> In a 2004 ASA poll, nine out of 10 businesses said “staffing companies offer flexibility to businesses so that they can keep fully staffed during busy times.” When asked specifically why they use staffing firms to obtain temporary and contract employees, they cited three main reasons:

- To fill in for absent employees or to fill a vacancy temporarily
- To provide extra support during busy times or seasons
- To staff special short-term projects

Besides flexibility, the ASA poll showed that businesses also look to staffing firms as a good source of talent for permanent employees.<sup>3</sup>

The national economic impact of temporary work is remarkable given that temporary jobs make up just over 2% of total nonfarm employment.<sup>4</sup> During the economic expansion that ended in 2000, the staffing industry created 1.9 million new jobs<sup>5</sup> and was a key factor in reducing unemployment. One major study concluded that the staffing industry's expertise in matching individuals and their skills to available work assignments accounted for half of the decline in the U.S. unemployment rate during that period<sup>6</sup>—declines that have been described as permanent.<sup>7</sup>

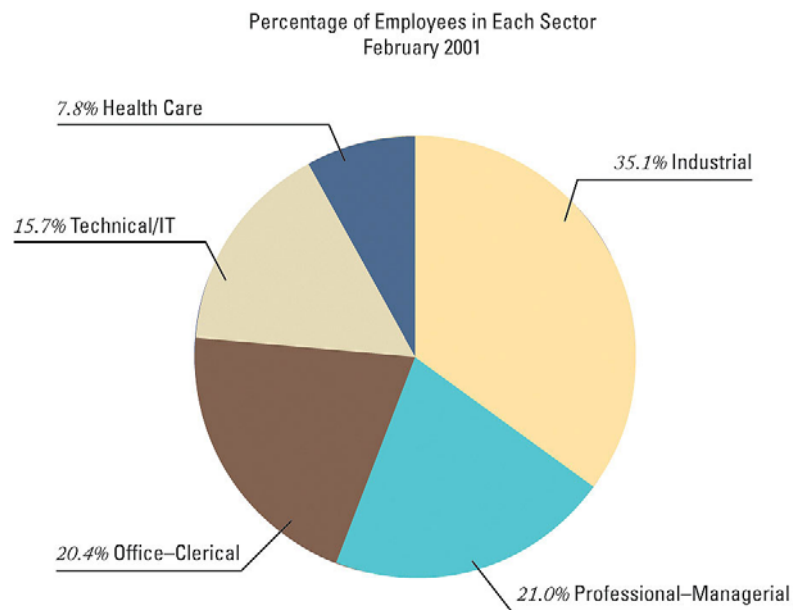
The correlation between flexible labor markets, lower unemployment, and jobs growth has been noted by former Federal Reserve Board chairman Alan Greenspan. In testimony before the Senate Banking Committee, Greenspan identified flexible labor markets as a key factor in fostering innovation and growth of new technologies, resulting in more jobs.<sup>8</sup> Current Federal Reserve chairman Ben Bernanke also has stressed the importance of labor market flexibility and policies that facilitate retraining and job search by displaced workers—a key function of staffing firms.<sup>9</sup>

## What Staffing Firms Do—Importance of Employer Role

Staffing firms recruit and hire their own employees and assign them to businesses to support or supplement their regular work forces; to provide assistance in special work situations such as employee absences, skill shortages, and seasonal workloads; and to perform special assignments or projects. Staffing firms invest millions of dollars each year in training their temporary employees—expenditures that have grown dramatically, according to the U.S. Department of Labor.<sup>10</sup>

As the chart below shows, staffing firms supply employees to every industry in every job category, from unskilled industrial labor, assembly and production work, and office and clerical support, to technical, scientific, professional, and managerial positions. Staffing firms provide a wide range of human resource services such as recruiting, skills assessment, skills training and upgrading, risk management, and payroll and benefits administration—allowing clients to concentrate on their core businesses.

### Temporary and Contract Employees Work in All Occupations



Contrary to what some people believe, temporary employees are protected by the full range of federal and state laws that protect workers.<sup>11</sup> A key factor in staffing firms' ability to help businesses achieve productivity growth and maximize their investment in technology is their assumption of many key employer functions—e.g., complying with wage and hour laws, paying employment taxes, and providing workers' compensation insurance—at a stable, predictable cost.

### **Temporary Employment as Economic and Jobs Indicators**

Wall Street, the Federal Reserve, academics, business leaders, and policy makers closely follow temporary employment because it often has been viewed as a leading economic indicator—i.e., a predictor of where the general economy may be heading—although it may be more accurate to describe it as a coincident, rather than a leading, economic indicator. A rebound in temporary employment strongly correlates with economic recovery, a relationship that has been observable for 30 years and that also has been true in the current cycle.

Temporary employment clearly is a leading *jobs* indicator. ASA and Department of Labor data show that when temporary jobs begin to decline, employment in general may be headed for a downturn. Conversely, during recoveries, temporary jobs lead the way, as the president's Council of Economic Advisers noted in its February 2004 report to Congress:

Looking ahead, temporary-help services employment—a leading indicator for the labor market—suggests substantial further employment growth. Average growth in temporary help services employment over a six-month period has a striking positive correlation with growth in overall employment over the subsequent six months...*Statistical analysis suggests that an increase of one job in temporary help services corresponds to a subsequent rise of seven jobs in overall employment.* (emphasis added)<sup>12</sup>

The correlation between temporary jobs and general employment growth can be seen in the 2004-2005 recovery period. In 2003, jobs growth was generally stagnant, while temporary jobs grew by 200,000. The growth in temporary jobs continued into 2004, presaging the general upturn in job growth that materialized in a significant way in March of that year and that continues today.

### **U.S. Policy Should Continue To Favor Labor Market Flexibility**

Some lawmakers at the federal and state levels have called for regulation of the staffing industry, e.g., by restricting the use of temporary help and mandating wages and benefits. Such proposals have been rejected, wisely, since they would significantly increase employer costs and reduce labor market flexibility—which, as European countries have learned, stifles job creation and increases unemployment.

## Notes

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- <sup>1</sup> American Staffing Association, Employment and Sales Survey Report, Fourth Quarter 2006 (Feb. 27, 2006), a proprietary report for survey participants only. Public data available online at *americanstaffing.net*; click on Staffing Statistics.
- <sup>2</sup> Peter F. Drucker, "They're Not Employees, They're People," *Harvard Business Review* (2002).
- <sup>3</sup> Steven P. Berchem, "Flexibility and Talent: Top Assets—Staffing Industry Gets Good Ratings in National Poll of Businesses," *Staffing Success*, May–June 2005, American Staffing Association.
- <sup>4</sup> Steven P. Berchem, *American Staffing 2007—Annual Economic Analysis*, American Staffing Association (2007).
- <sup>5</sup> Economic Report of the President (February 2000) at p. 89.
- <sup>6</sup> See Katz & Krueger, *The High-Pressure U.S. Labor Market of the 1990s*, Princeton University Working Paper #416 (May 1999) at pp. 40–41; see also "In Praise of Temps" (Dec. 8, 1999), *Washington Post* at p. A32.
- <sup>7</sup> Economic Report of the President (January 2001) at p. 73.
- <sup>8</sup> U.S. Senate Committee on Banking, Housing, and Urban Affairs, Hearing on the Nomination of Alan Greenspan (Jan. 26, 2000) S. Hrg. 106–526 at p. 21; see also Greenspan, *Global Economic Integration: Opportunities and Challenges* (Aug. 25, 2000), Remarks at a Symposium Sponsored by the Federal Reserve Bank of Kansas City at pp. 2–3.
- <sup>9</sup> Speech Before the Greater Omaha Chamber of Commerce, Omaha, NE (Feb. 6, 2007).
- <sup>10</sup> See U.S. Department of Labor, Report on the American Workforce (1999) at pp. 18–24.
- <sup>11</sup> See Edward A. Lenz, *The Staffing Services Industry: Myth and Reality: Global Competition and the American Employment Landscape—As We Enter the 21st Century*, New York University 52nd Annual Conference on Labor (Kluwer Law International, 2000).
- <sup>12</sup> Economic Report of the President (February 2004) at p. 94.