

The Use of Temporary Workers and Volatilities

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The use of Temporary Help Services (THS) is thought to allow firms to more efficiently accommodate fluctuations in product demand. As shown in Segal and Sullivan (1995, 1997), the demand for THS employment is very sensitive to the business cycle, indicating that the industry provides a buffer for firms that face high costs of adjusting permanent employment. Other research finds evidence that the growth of the THS industry has enhanced the efficiency and flexibility of the overall labor market by better matching firms with vacancies to unemployed workers (Golden, 1996, Ono and Zelenev, 2003). Despite the increasingly prominent role that the THS industry plays as a labor market intermediary, however, there are few empirical studies of the decisions of individual client firms to hire temporary workers. Neither has the industrial organization of the THS industry been studied extensively.

In order to increase understanding of the THS industry and provide more direct evidence that THS agencies facilitate the labor market flexibility, we use micro data to analyze firm's use of temporary labor as well as the industrial organization of the THS industry.

Using the survey of Plant Capacity of Utilization (PCU) data, we test to what extent THS plays a buffer role, by examining how an establishment's use of THS labor is associated with the volatility of the establishment as well as various local market and establishment characteristics. Since 1998, the PCU data has collected information on temporary production worker hours for a sample of manufacturing plants. For each establishment, we calculate the share of temporary workers and use it as a measure of the intensity of the use of temporary workers. The volatility at the establishment level is measured based on the time series of both employment and outputs using the Census of Manufactures and LBD.