

The Advantages of a Flexible Labour Market

by Youri Chassin



Many workers, particularly the young and immigrants, have a hard time finding a job, especially a full-time job. At the same time, many companies in various sectors struggle to fill certain positions. This seemingly paradoxical situation stems from the difficulty of achieving a perfect match between job seekers and available jobs. What is called the flexibility of the labour market represents an excellent solution to this problem, for both employees and employers. This *Economic Note* aims to illustrate this general notion by delving more specifically into the role of the staffing services industry.

A changing labour market

The labour market has undergone profound changes in recent decades. What we still call non-standard employment has grown substantially compared to “traditional” employment, i.e., permanent, full-time work. Indeed, since the start of the 2000s, there have been slightly fewer full-time employees throughout the year than non-standard employees in Canada (see Figure 1).¹

The growth of non-standard employment largely corresponds to the decisions of many people to hold jobs that are tailored to their family obligations, to the pursuit of their studies or to progressive retirement. For others, around a quarter of those with such jobs, it represents an involuntary option, as they are unable to find permanent, full-time positions.²

To adapt to these changes, the current labour market requires more flexibility on the part of both employers and employees, which increases the degree of uncertainty for both groups. However, this trend also has its advantages since employment

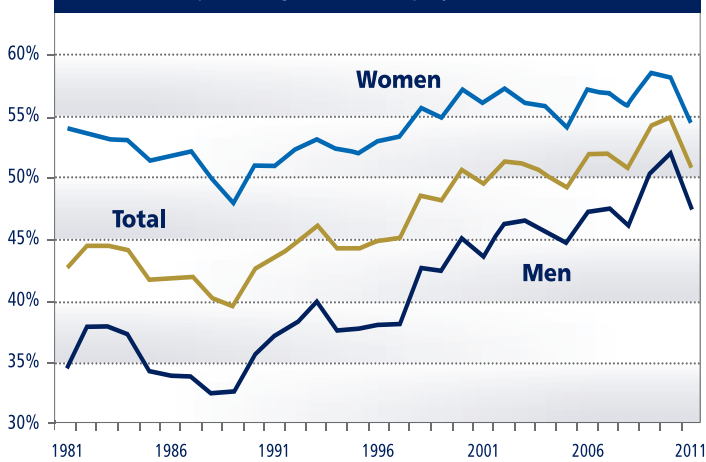
guarantees and more uniform pay scales for the currently employed often results in temporary positions or outright unemployment for those who want to enter the labour market—especially the young, immigrants and less-qualified workers. Making labour markets more flexible therefore allows for an easier integration of these people, who are often in non-standard employment situations involuntarily.³

Several studies have demonstrated the negative effects of a rigid, heavily-regulated labour market, among which are weaker job creation and higher unemployment rates.⁴ In Europe, where the regulation of labour markets is very heavy, unemployment rates have generally been higher than in the United States for many years.⁵ This connection between flexibility and the reduction of unemployment holds throughout the world, and the effect is even stronger for the young.⁶

The impossibility or the difficulty of firing workers during a recession directly reduces the allure of hiring during the good times. Properly designed public policies



Figure 1 — Changes in non-standard employment as a percentage of total employment in Canada



Source: Statistics Canada, Number of earners, by sex and work activity, Table 202-0103.

aiming to make the labour market more flexible can therefore encourage job creation and reduce unemployment. This is especially the case when these policies make the hiring and firing of workers less costly for companies, since the two decisions are intimately connected.

The staffing services industry

In addition to good public policies encouraging labour market flexibility, solutions also emerge from private initiatives. The need for flexibility expressed by employers and by a growing number of workers has favoured the development of the staffing services industry. This industry facilitates the matchup between job seekers and the positions offered by employers, through the recruitment and the supply of extra or temporary workers, among other things. Staffing agencies are involved both in industries that are focussed on manual or manufacturing work and in service industries like health and computers.

These agencies represent a sizable sector in Canada.⁷ Their operating revenue hit \$10.6 billion in 2011, 90% of which came from three provinces: Ontario (54.5%), Alberta (23.4%) and Quebec (12.7%). That same year, some 4,000 active establishments paid out \$6.6 billion in salaries and benefits (see Figure 2). Customers from the private sector make up the majority of the industry's sales figure, while governments and public organizations account for just 12.1%.⁸

In the United States, the staffing services industry was responsible for 12% of net job creation over the past three years, while it represented less than 2% of total employment, according to the Bureau of Labor Statistics.⁹

The presence of the staffing services industry allows businesses to better manage their labour needs based on a variety of circumstances. More specifically, a poll of American companies shows that they make use of staffing services mainly to deal with unexpected business growth (52%), to fill both unexpected and long-term absences (47%), while waiting for an employee's permanent replacement (47%), for special projects (36%) or to deal with seasonal rushes (28%). Finally, some employers (21%) mention that they hire temporary workers to preselect candidates for regular positions in order to ensure their competence.¹⁰

A German study, which produced similar results, looked into the particular case of companies that made extensive use of staffing services, finding more than 20% of their labour force that way. The authors note, however, that the majority of these extensive users do not remain so for long. It is a temporary phenomenon, possibly connected to a rush period, and it therefore seems unlikely that companies make use of these services as part of a strategy to reduce their labour costs.¹¹

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It is nonetheless interesting to note that companies that use this kind of service and bank on the flexibility of their labour force tend to perform better financially.¹² These companies' efficiency gains lead to greater job creation in the economy at large.

A springboard for the unemployed

Generally speaking, non-standard employment can be a step in the process of labour market integration. At the start of the 21st century, for example, 60% of unemployed people who had found a job in the two years that followed had first

been hired for non-standard work.¹³ This turns out to be particularly important for groups with high unemployment rates, like immigrants.

This phenomenon explains why the staffing services industry plays the role of “springboard to employment” for all categories of the unemployed and increases their ability to find permanent jobs. The chance of landing a permanent position is higher after having held a temporary position for eighteen months than after having been unemployed for a similar stretch of time. A Dutch study that confirms this result also concludes that the unemployed who find permanent work after having been temporarily employed receive higher salaries than those who transition directly to permanent work.¹⁴

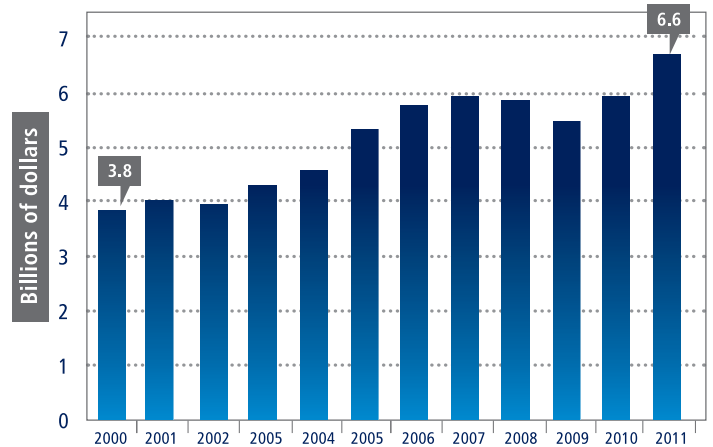
The same phenomenon has been observed in Italy, where the use of staffing services was liberalized in 1997. Researchers found a positive causal effect between the use of staffing services and the chance of finding a permanent job. The study shows that in Tuscany, for example, staffing services raised the chance of finding a job by 19%.¹⁵

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As in most Western countries, immigrants and members of ethnic minorities in Canada have a harder time finding work. In 2012, the unemployment rate for immigrants was 8.3%, whereas it was just 6.9% for those born in Canada.¹⁶ However, it is precisely for immigrants and minorities that the staffing services industry's springboard effect toward permanent employment is most significant.

There are three reasons for this phenomenon.¹⁷ First, it is difficult for an employer to evaluate the potential productivity of an immigrant who was educated and trained in a different environment. This difficulty of validating information therefore increases an employer's risks in hiring an immigrant for a permanent, long-term contract. By having recourse to staffing services, immigrants can have a chance to be evaluated and provide employers with the

Figure 2 — Salaries and benefits paid by employment and staffing agencies in Canada



Source: Statistics Canada, Employment services, summary statistics, by North American Industry Classification System, Table 361-0001.

information they need without those employers having to run the risks of offering permanent positions right from the start.

Second, not only do immigrants acquire general experience while temporarily employed, they also develop experience that is specific to their adopted country, like the local language and work customs. This period of on-the-job training represents a significant benefit of using staffing services, making immigrants more attractive candidates for employers.

Third, thanks to temporary jobs, immigrants form contacts on the labour market that they can use in order to find permanent employment.

Generally speaking, it is the unemployed with relatively fewer prospects on the job market who benefit the most from the advantages associated with the kind of temporary work facilitated by staffing services. Immigrants would therefore benefit from having even greater access to those services. From this perspective, policies that aim to facilitate access to temporary employment for these people, by helping them sign up with staffing agencies for example, could be set up in order to reduce their unemployment rate and promote their integration into the Canadian economy.

Conclusion

Over the years, certain voices have called for the regulation of the staffing services industry, for example by limiting the use of temporary staff and by regulating the salaries and working conditions of temporary employees.¹⁸ Despite the noble intentions behind such calls for more regulation, there is a very real danger that such proposals would significantly reduce the flexibility of the labour market, which could lead to higher labour costs and more unemployment.

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Also seemingly forgotten is the fact that it is very often workers themselves who choose to work for the staffing services industry because of the advantages offered: better monitoring, a greater variety of jobs, diversity of employers, better training possibilities and experience, etc. According to a Léger Marketing poll carried out in Quebec, three quarters (77%) of workers in “non-traditional” employment situations say that they deliberately chose to work under those conditions.¹⁹ For those who did not make this choice, it is precisely the flexibility of the labour market—facilitated by, among other things, the role played by staffing services—that represents a springboard to finding a more regular job.

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