

**Economic Opportunity in a Volatile Economy:
Understanding the Role of Labor Market Intermediaries
In Two Regions**

EXECUTIVE SUMMARY

(The full text of the Final Report can be found at
<http://www.willamette.edu/publicpolicy/lmi/>)

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EXECUTIVE SUMMARY

Over the last three decades, American workers have witnessed marked changes in their jobs and earnings. Global competition, new technologies, and employer restructuring are bringing a distinct shift in the employment relationship, including an erosion of career ladders within individual firms. One response to these shifting employment conditions has been a rapid growth of labor market intermediaries (LMIs). Intermediaries come in a variety of forms, ranging from temporary agencies and professional associations to union hiring halls and community-based organizations. Almost all LMIs engage in job brokering activities, matching job seekers with individual employers. In some cases, intermediaries also provide training as well as access to jobs with real opportunities for advancement. In other cases, placements involve temporary, dead-end employment.

This report looks at the role of labor market intermediaries in two major metropolitan areas, Silicon Valley in California and Milwaukee, Wisconsin. In this report we:

- provide a ‘landscape’ of intermediary activity within each region;
- document the incidence of intermediary use, both across each regional labor market and within particular sub-groups of workers;
- discuss services workers receive from these intermediaries;
- assess the quality of services they receive;
- analyze factors that influence the impact intermediaries have on the quality of employment and career opportunities;
- explore the relationship between social networks, urban geography and the use of labor market intermediaries; and
- identify important areas for further research and policy development.

Our focus on two regional labor markets contributes a particularly useful perspective to the growing body of research and knowledge on intermediary activity. It allows us to gain a comprehensive picture of a wide-range of intermediary activity, not simply the activity of a single type of organization. It allows us to gain an appreciation of the level of importance of intermediaries as a whole to the regional labor markets. Furthermore, by comparing intermediary use in the two regions, it allows us to explore the ways in which intermediary activity is shaped by the particular economic characteristics of a prototypical ‘new economy’ region and a prototypical old, industrial manufacturing-based region.

This report draws on three types of data and methodology:

- First, in the summer and fall of 2000, we conducted a qualitative study of labor market intermediaries in Silicon Valley and Milwaukee. This included focus groups with representatives from a wide range of intermediaries, and detailed case-studies of 23 different intermediaries in both regions, based on a total of 146 interviews with intermediary staff and their clients (both job-seekers and employers).

- Second, to garner background information on the volatility of labor market conditions in both locations, we conducted an analysis of the employment patterns and levels of volatility in each region. This was based on an analysis of a 5 percent sample of unemployment insurance wage record data for California and Wisconsin for the years 1991 through 1999.
- Finally, between August 2001 and June 2002 we conducted a random sample phone survey of workers to gather information on the labor market experiences of active labor market participants between the ages of 25 and 64, including both those who did and did not use labor market intermediaries to find work. We collected survey responses from 1,348 individuals (659 in Milwaukee and 689 in Silicon Valley), with the average survey running 22 minutes and the resulting dataset containing over 400 pieces of information. We over-sampled those who had used some kind of LMI to obtain a job that they had held in the last three years, resulting in a total of 739 observations (373 in Milwaukee and 366 in Silicon Valley) of people in that category.

Our emphasis throughout the research was on examining the impact of labor market intermediaries on the employment opportunities for disadvantaged workers in each region. In this context, we found it useful to distinguish between “market-meeting” and “market-making” activities of intermediaries. Market-meeting activities, including some significant job placement and training efforts that can have a significant effect on individual worker’s lives, still implicitly take the available jobs, and the wages and benefits attached to them, as a given. At a time when job quality itself is on the decline, this strategy has inherent limits in improving worker welfare. In contrast, market-making activities of intermediaries are strategies that are in some way attempting to alter the job structure itself. This includes not simply training for existing jobs, but also concerted actions to raise the skill levels and wages of the jobs themselves, as well as strategies aimed at changing the distribution of jobs by altering the basic standards connected with employment.

It is important to recognize, however, that market-making activities do not always yield positive results. Temporary agencies, for example, often make markets in the other direction, helping employers to lower wage and benefit floors, as well as altering work rules for the benefit of the employer. This may give temp agencies a competitive advantage: while pro-labor intermediaries must devise innovative ways of enticing firms to act in the interest of workers, temp agencies are able to serve business interests directly and unabashedly, therefore enjoying a more secure market niche. Market-making, in short, is a neutral description, and the array of forces and challenges facing those intermediaries that try to improve job quality and benefit workers are significant. Nonetheless, we found the distinction between market-meeting and market-making activities useful for analyzing the nature of the impact intermediaries are having on labor markets and the employment opportunities of individual workers.

It is important to emphasize that this is a preliminary report, intended to generate feedback and promote discussion. We are still in the process of analyzing our data. In subsequent publications, we expect to be able to refine the preliminary conclusions we present here, and to generate significant new conclusions based on even more detailed analysis of our data.

MAJOR FINDINGS:

The following represents the major preliminary findings from our study:

Overall Incidence of Use High and Widespread

Widespread role of intermediaries in both regions: More than a quarter of all workers in each region had held a job in the last three years that they got directly through an intermediary. This finding reinforces the widespread perception that intermediaries play an important role in shaping labor markets. Nonetheless, it is important to keep in mind that this is still a minority of the workforce and that most people find work through social networks and contacting employers directly.

LMI users are not just the unemployed: Many people reported using an LMI to get a job because they were unemployed or otherwise not working. A greater portion of LMI users, however, were already employed and used an LMI in the hopes of getting a better job or career.

LMI use not limited to disadvantaged workers: Workers at all levels in the labor market make use of intermediaries.

Intriguing Differences Between Milwaukee and Silicon Valley

Milwaukee has slightly higher use of intermediaries: Surprisingly, there was a slightly higher level of incidence of use of intermediaries in Milwaukee than in Silicon Valley (29.8 percent vs. 26.3 percent of workers had held a job in the last three years they got through an intermediary). This is despite higher levels of job turnover in Silicon Valley than Milwaukee, which we originally thought would correlate with higher intermediary use. Instead of turning to LMIs, workers in Silicon Valley are more likely than workers in Milwaukee to find jobs through friends (25.4 percent vs. 19.8 percent) or through the Internet (4.3 percent vs. 1.6 percent). However, given the significantly different demographic characteristics, educational attainment levels and economic structure of each region, we have yet to develop a full explanation for the difference in incidence of intermediary use.

Differences in incidence of use primarily amongst disadvantaged workers: The difference in intermediary use in the two regions is primarily in the lower levels of the labor market. In Milwaukee, whether defining 'disadvantaged' by income, education level or race, disadvantaged workers had a significantly higher use of intermediaries than the rest of the workforce. This was not the case in Silicon Valley. In Milwaukee, for example, 57.9 percent of blacks and 54.1 percent of Hispanics had held a job in the last three years they got through an intermediary, compared to 24.9 percent of whites. Similarly, 40.7 percent of people in households in the bottom third of income distribution had held a job in the last three years they got through an intermediary, compared to 26.7 percent of workers in households in the upper two-thirds of the income distribution. In Silicon Valley, those in the bottom third of income distribution use an intermediary only slightly more (28.6 percent vs. 26.2 percent) than those in the upper two thirds, while those with only a High School degree (or less education) used an intermediary less (21.5

percent vs. 29.3 percent) than those with some college education and Hispanics used them less than Whites (18.8 percent vs. 26.3 percent). In essence, intermediary use amongst upper levels of the labor market was nearly identical in both regions.

Differences exist amongst specific intermediaries and groups of workers: Beneath the figures on overall incidence of use in each region are intriguing differences in use amongst specific types of intermediaries and groups of workers, as measured by income, education and race. Temporary agencies in each region, for example, seem to have significantly different constituencies. In Silicon Valley, temporary agencies are surprisingly missing in the Hispanic population--only 5.7 percent of Hispanics had held a job in the last three years they got through a temporary agency, compared to 15.6 percent of whites and 19.9 percent of Asians (the black population is very small in Silicon Valley). In Milwaukee, in contrast, temporary agencies have clearly focused on the black population, with 31 percent of blacks having held a job in the last three years they got through a temporary agency, compared to 10.9 percent of whites.

Differences in industry and occupational characteristics of lmi users: When comparing the industry and occupation of LMI users in each region, intriguing differences emerge as well. In Silicon Valley, compared to Milwaukee, LMI use was significantly higher amongst Professional/Specialty Occupations (12.9 percent vs. 3.7 percent) and Technicians and Related Occupations (6.7 percent vs. 2.7 percent). In Milwaukee, LMI use was significantly higher amongst Machine Operators, Assemblers & Inspectors (15.6 percent vs. 2.8 percent) and those in Transportation and Material Moving Occupations (17.5 percent vs. 7.8 percent). In relation to the industry of employment, in Silicon Valley LMI use was highest in Computing Equipment, Construction and Electrical Machinery, while in Milwaukee LMI use was highest in Transportation, Construction, and Hospitals.

These findings suggest that while overall incidence of LMI use is broadly similar in each region, LMIs are still deeply shaped by the specific industrial, occupational, and demographic characteristics of each region. We are in the process of exploring these differences in greater depth.

Quality of Services Low and Impact on Wages Limited

Temporary help agencies are the most widespread LMI, but also provide the least services: Temporary help agencies in both regions were used to get jobs more frequently than all other types of LMIs combined. Beyond the actual placement, however, workers received relatively fewer additional services from temporary agencies. For instance, more than 60 percent of non-profit agency or other LMI users reported receiving assistance in job-hunting skills, compared to approximately 30 percent of temporary agency users. Only 4 percent of temp agency users in Milwaukee and 7 percent in Silicon Valley reported receiving computer training, compared to a third of non-profit or other LMI users in each region.

At an aggregate level, intermediaries seem to have little impact on wages: Controlling for worker's own characteristics, we ultimately found very limited effects of

intermediaries on the wage levels that workers get. Users of temporary agencies do have significantly lower wages, but this is largely explained by sorting—temporary agencies in Milwaukee draw relatively high numbers of disadvantaged workers.

Lack of impact on wages true of non-temp agency intermediaries as well: It is important to emphasize that intermediaries lack of impact on wages is not just limited to temporary agencies. At an aggregate level, non-temp intermediaries (which includes public sector, non-profit, community college and union-based intermediaries) had little impact on wages as well.

Intermediaries DO impact access to health insurance: The strongest aggregate impact of intermediaries on the quality of jobs we identified is in the area of access to health insurance. Even after controlling for workers' characteristics, those who use temporary agencies are much less likely to find jobs that provide health insurance.

Intermediaries cannot significantly improve employment outcomes without changing the quality of jobs: Given the overall lack of impact on wages, it is clear that most LMIs simply 'meet the market'—taking the available quality of jobs as a given. While our qualitative research found some cases of individuals who have benefited from their interaction with LMIs, overall our research found little evidence to suggest that simply job matching and even training will significantly improve career outcomes for the majority of workers. At an aggregate level, the force of the labor market seems to dominate over intermediary use.

Distinguishing between 'good' and 'bad' intermediaries difficult to do at an aggregate level: Our current statistical efforts do not allow us to distinguish except between broad LMI types, such as temp and non-temp. Our qualitative research (and other studies) indicates that only a few, very well run intermediaries are able to have a substantial impact on economic opportunities for disadvantaged workers. Distinguishing between good and bad intermediaries at an aggregate level will require larger data sets, which allow for more detailed categories of LMI types to be developed.

Social Networks Impact Intermediary Use

Strong social networks lead to less LMI use: Using a measure of 'social connectedness', we found that those who are more socially connected are less likely to use LMIs and more likely to use friends to find jobs, than those who are less socially connected.

Social network also lead to better LMI use: Of those people who do use LMIs, those with strong social connections are more likely to use 'better' LMIs—unions, professional associations and community colleges—rather than temporary agencies.

Social networks are less effective in low-income areas: Within low-income areas, social networks may be strong, but they appear to be socially bounded in their ability to lead to better employment outcomes. In low-income areas, strong social connectedness doesn't keep people away from using LMIs. Strong social ties do seem to help steer LMI users away from temporary agencies, but not necessarily steer them towards better quality LMIs.

Case Study Research Reveals Certain Factors Do Affect Positive Career Opportunities

The most promising intermediary efforts involved community colleges linked with networks of intermediaries, or membership-based associations: Unions, and networks of intermediaries that include community colleges, provided the most promising models of intermediary activity in each region. These initiatives had a number of specific characteristics, including:

- targeting particular occupations or industry sectors
- maintaining communication with workers over an extended period
- building strong relationships with employers
- deliberately focusing on workers long-term needs
- providing both formal training and informal on-the-job learning opportunities over extended periods of time

Improved career outcomes most likely in cases where LMIs can affect the demand side of the labor market: In a few cases, intermediaries we studied had the ability to change the quality of the jobs available, by working closely with both workers and employers around training and productivity. This clearly can have significant impact in improving outcomes for both workers and employers, but intermediaries who try to have a positive impact on job quality are facing an enormous challenge. Success seems to depend on the extent to which an intermediary can bring both incentives and pressures to bear on the employers.

RECOMMENDATIONS:

The results of our research to date, summarized above, suggest the need for increased research and policy attention on intermediaries. While LMIs are currently having limited, or in some cases negative, impacts on career opportunities for disadvantaged workers, our findings suggest they are widespread in many different types of labor markets and potentially could have a significant positive impact on labor market outcomes. Thus, we are making a number of recommendations, both in relation to policy and further research.

Policy Recommendations

Focus on improving demand side of the labor market: If intermediaries continue to take the demand side of the labor market for granted, they will continue to have a minimal impact on job quality and career outcomes. Clearly there are many factors affecting the quality and quantity of job available in the labor market, and we shouldn't expect too much from intermediaries. Nonetheless, strengthening the ability of LMIs to interact closely with employers and improve the quality of jobs and career advancement opportunities should be a top priority. Where possible, this should be done through 'win-

win' scenarios, where investments in worker training can be translated into improved productivity. It is important to recognize, however, that improving job quality and career opportunities for workers may also involve putting financial, regulatory, and other forms of pressure on employers to use better intermediaries.

Specific mechanisms that could be developed or strengthened to improve LMIs impact on the demand side of the labor market include:

- *Restrict negative intermediary activity:* It is possible to restrict the activities of intermediaries that are clearly having a negative impact on job quality. Our study supports the growing evidence that temporary agencies have a significantly negative impact on the labor market, and their activities should be more tightly regulated. This could include such measures as limiting the length of placements, requiring adequate disclosure of mark-up rates, requiring equal pay for equal work for both temporary and permanent workers performing the same work, and instituting
- *Promote membership-based intermediaries:* Intermediaries that represent workers through some democratic process (this can include unions, professional associations, and some community-based organizations) will have to respond to pressure from employee clients to secure greater opportunities and thus be more likely to become 'market-makers', seeking ways to induce job quality change. This could be achieved, for instance, by encouraging LMIs to have a membership structure in order to receive public funding for training and placement programs.
- *Promote cluster-specific LMI-employer partnerships:* Win-win arrangements in which improved training is translated into improved labor productivity is most likely in cases where multiple employers and intermediaries develop partnerships around collective training needs and industry-specific skill sets. Again, this could be encouraged by making public funding for training contingent upon demonstrated partnerships (including joint funding) between multiple employers and LMIs.

Focus on career advancement: One of the greatest weaknesses of the current LMI 'system' is the widespread focus on short-term job placement, rather than on long-term career advancement. Incentive systems for non-profit and government-supported intermediaries typically have excessively emphasized placement to the detriment of retention and advancement issues. Most for-profit LMIs appear to have little incentive to build careers for their workers. Many membership-based intermediaries have restricted membership and a limited impact beyond their immediate members and worksites. With increasing job turnover and declining internal job ladders within firms, the fragmented institutional structure of intermediary activity merely perpetuates job churning.

Building effective career advancement systems will require improving the networking and coordination amongst intermediaries, building stronger linkages between the bottom and middle levels of the labor market, and strengthening occupational communities that are inclusive and effective in both formal training and promoting mentorship and

effective on-the-job learning processes. Specific mechanisms to promote improved career advancement include:

- *Restructure workforce development incentive structures:* For example, the current welfare-to-work emphasis on placement at the expense of training and career mobility moves in precisely the wrong direction. Similarly, workforce development funds that leave training as a ‘third tier’ service undermines training opportunities. Incentive structures for workforce development could be structured around not just placement and short-term retention rates, but also around wage rates, and 3-5 year advancement rates.
- *Increase funding for long-term education, not just short-term training:* Many job training programs are too short to have a significant impact on career outcomes. Resources to improve workers’ access to multi-year community college degrees and certification courses, is essential for improving long-term outcomes.
- *Promote networking and coordination:* Intermediaries could be required to demonstrate coordination with other intermediaries, including particularly community colleges and unions, in order to be eligible for significant public resources.

Further Research

Our research points to a number of promising areas where further research would be highly valuable in shaping our understanding of the effect of intermediaries on career opportunities for disadvantaged workers, and how policy might improve their activities. These include the following:

Case Studies of ‘Market-Making’ Intermediaries: Unless LMIs can help impact the types and quality of jobs that are offered they will continue to have only a minimal impact on labor market outcomes. Most LMIs don’t impact the quality of jobs, but in a small number of cases, LMI’s have shown the ability to impact the demand side of the labor market and positively influence wages and career mobility. Significant additional research is needed to understand these unusual cases and how they could be extended to other areas. What are key elements of this capacity? How can they be strengthened and expanded? How can they be encouraged in more LMI’s? At the same time, it is important to recognize that certain ‘market-making’ LMI’s are worsening employment opportunities, and we can learn a great deal from these cases as well. To what extent are these tendencies growing? How might they be discouraged or prevented?

Detailed Longitudinal Studies of Wage Effects of LMI Usage: Although our analysis has indicated some correlations between wage levels and the use of different types of LMIs, our study was unable to measure wages before and after intermediary use and thus the extent to which LMI’s influence wage levels remains to be determined. Additional research could focus on longitudinal studies of LMI users, comparing their wage and career progressions to a control group of non-LMI users. To what extent are LMI’s securing job placements for individuals who would otherwise be unable to enter the labor

market at virtually any legal wage? To what extent are they directing workers towards low wage jobs who, with other counseling or assistance, might do better?

Relationship between LMI usage and nature of social networks: Our research showed some important linkages between social networks and the character of people's use of LMIs. Numerous questions remain. Our current statistical efforts do not allow us to distinguish except between broad LMI types, such as temp and non-temp, and within each category there is a range of both effective and non-effective intermediaries. Understanding the sorting process at that level—who gains access to the best LMIs—would probably require detailed neighborhood and regional studies but the answers might be fruitful in terms of thinking of information strategies to improve job seeker search. Furthermore, our econometric work also does not allow us to track how LMI use may help build social networks. Our qualitative work suggest that this might be important to improving worker outcomes, especially when built around occupational communities, as is the case in certain innovative initiatives. More case study research is needed in this area.

LMI Use in Specific Constituencies: LMI usage can be highly concentrated in particular population groups. This is evident in the remarkably low level of temp agency usage by Hispanics in Silicon Valley, the remarkably high use of temp agencies by blacks in Milwaukee, and the disproportionate use of temp agencies by a more educated component of the workforce in Silicon Valley. Detailed studies of LMI usage in particular constituencies would help us understand under what circumstances workers seek out LMIs, the kinds of services LMIs provide to different types of workers, and implications of this for the availability of alternative mechanisms to secure job placement.

Finally, in addition to the additional research efforts suggested above, we have far from exhausted the insights that are available in our existing data. Based on some of our preliminary analysis, we have identified the following priorities for our own efforts to analyze our existing data and make the most out of this current study:

- ***Refine policy recommendations:*** Our top priority is to get together as a research team, along with our advisory board and a select group of policy advisors, to discuss the policy implications of our findings.
- ***Further study of wage impacts:*** Our analysis of the wage impacts of intermediaries is complicated by the selection bias in our survey. We are continuing our efforts to improve our regression analysis, and refine our analysis of the relationship between intermediary use and wages.
- ***Further explore relationship between LMIs and social networks:*** In particular, it appears that there are some interesting differences between the two regions in terms of how social networks relate to LMI use. Furthermore, we plan to further examine how the quality of social connectedness (not just the strength of social ties) affects intermediary use.

- ***Revisit qualitative data in light of quantitative findings:*** Our qualitative data remains under-analyzed, and we intent to revisit the qualitative data in light of our findings form our quantitative findings.