Labor Market Flexibility—A View from the United States

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Abstract:

In the 1970s and 1980s American scholars and analysts looked to some Western European countries and Japan for strategies to lower unemployment. The strong job security promoted by employment laws and labor market institutions were viewed by many as integral to relatively low unemployment rates. By the 1990s, however, that view had changed. With lower unemployment in the United States, strong employment protection laws in Europe were widely viewed as an impediment to job creation and a leading explanation for Europe's weaker economic performance. The weakening of employment protection laws in Europe often took the form of relaxed restrictions on the use of temporary contracts and temporary help agencies, and resulted in a significant growth in these types of arrangements.

The United States too experienced rapid growth in temporary help and other types of nonstandard arrangements in the 1990s, suggesting that employers' motivations for using these flexible arrangements involved more than circumventing employment protection laws. Drawing on recent and on-going research, I will document the growth of temporary help employment, particularly among low-skilled, manual workers in the United States; present evidence as to why U.S. employers use flexible arrangements; and argue that temporary help employment has not been an effective "stepping stone" to stable employment for low-skilled workers.

The Great Recession, during which the U.S. economy shed 8.4 million jobs, and the persistently high unemployment that has ensued have prompted interest again among U.S. policymakers in improving job security by promoting greater attachment between workers and firms. Of particular interest is short-time compensation in unemployment insurance programs to facilitate firms' use of hours adjustment in lieu of layoffs during temporary downturns. While short-time compensation in UI programs in Europe is commonly viewed as a policy to accommodate employment protection laws, in the United States the absence of short-time compensation programs in most states arguably biases adjustment in favor of layoffs. Using cross-state variation in the availability of these programs, I argue that had these programs been available and promoted in all states, a significant number of jobs could have been saved during the recent recession (Abraham and Houseman 2011).

I will close with remarks on labor market flexibility in a global economy.