More than 75 years since the system was created, unemployment insurance is still a contentious issue. Whether the problem is a lack of available work or the resistance of the unemployed to seek new work, the unemployment system itself seems to be failing to do its job. However, we could speed the re-employment of the unemployed by using staffing agencies to match people with available positions.

Executive Summary

During the Great Depression, proponents of the unemployment insurance system pushed four goals: eliminating poverty, prevention of unemployment, eliminating the social stigma of needs-tested benefits and maintenance of purchasing power.

The unemployment system is failing to achieve these objectives. In 2010, $112 billion in unemployment insurance benefits were paid while 46.2 million persons remained at or below the poverty line. Additionally, the unemployment rate remains high at 8.2 percent.

Weak job search is a major reason why people have difficulty finding jobs in a reasonable period of time. Some of what we know from numerous studies on unemployment research includes:

- Workers eligible for unemployment insurance benefits remain unemployed longer than those who are not eligible.
- Higher unemployment insurance benefits lead to longer durations of unemployment.
- There is a dramatic rise in the rate of the unemployed finding work the week before benefits run out.
- In addition, the academic evidence tells us that the unemployment insurance system is a disincentive to re-employment.

In this difficult economy — with many job losses being permanent rather than temporary — many people perceive that jobs simply are not available. We know, however, that jobs are available. Consider:

- Net new jobs are being created every month, and in recent months, the new hire rate has been around 3.3 million people per month.
- At present, there are about 2.7 million job openings.

Getting the unemployed back to work can happen through encouraging the unemployed to increase their work search efforts. Based on experiments, among the options available for stimulating job acquisition
Using Staffing Companies to Reduce Unemployment

are rapid re-employment bonuses, required attendance of classes on job search techniques, and face-to-face meetings between unemployment insurance recipients and state workers.

Additionally, the re-employment of the unemployed could be sped up by using staffing agencies to match people with available positions. One model to do this involves initiating a competitive bidding process to select a master staffing company for a metropolitan area. Another way is for staffing companies to compete for unemployed people to serve. After unemployed individuals choose a staffing company to work with, the company is compensated based on the individual’s performance. Finally, a third model enlists employers who lay off workers to be more active in the re-employment process, possibly through steering laid-off workers to staffing companies as a way of reducing the company’s unemployment insurance taxes.

Experimentation with different configurations and contract terms with staffing companies should begin immediately. Although a new system could be imposed by federal law, it makes more sense to set up several states and metropolitan areas as laboratories to learn how best to set up a program of support for unemployed people through the staffing industry. The time to start these experiments is now.

About the Author

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Introduction

More than 75 years since the system was created, unemployment insurance is still a contentious issue. Whether the problem is a lack of available work or the resistance of the unemployed to seek new work, the unemployment system itself seems to be failing to do its job. However, we could speed the re-employment of the unemployed by using staffing agencies to match people with available positions. Seventy-nine percent of the people employed through temporary agencies work full time, a figure close to the 81 percent of the general work force who are employed full time. Staffing agencies could prove a viable solution to the problems of today’s unemployment insurance system.

The Unemployment Insurance System Is Not Working. The disagreement among advocates and critics is not surprising, given the failure of the system to achieve its objectives. Prior to the program’s adoption in 1935, proponents offered four goals for unemployment insurance.

Eliminating Poverty. An early advocate of unemployment insurance, economist and physician I.M. Rubinow, argued that “the ideal purpose of social insurance, the purpose to which the best insurance systems tend... is to prevent and finally eradicate poverty, and the subsequent need of relief, by meeting the problem at the origin.” However, the unemployment system has not come close to eliminating poverty. Although $112 billion of unemployment insurance benefits were paid in 2010, the poverty rate was 15.1 percent, totaling 46.2 million persons. (2010 is the latest year for which complete data are available.)

Prevention of Unemployment. During the debates over adoption of the system, the distinguished economist John R. Commons stated that taxing employers to pay for unemployment insurance would lead employers to stabilize their workforces. President Roosevelt explained, “An unemployment compensation system should be constructed... toward the larger purpose of employment stabilization.”

However, the unemployment rate last year was 9.0 percent, and as of this writing (June 2012) is only down to 8.2 percent. The unemployment insurance program has hardly prevented high unemployment. [See Figure I.]

Eliminating the Social Stigma of Needs-Tested Benefits. Because unemployment insurance is an earned claim, based upon work history and the employer’s tax payment, the beneficiary does not collected relief based on need. This was expected to be more socially acceptable.

A recent study by researchers at the University of California - Los Angeles found that, “all things being equal, unemployed applicants were viewed as less competent, warm and hire-able than employed individuals.” A number of other news reports suggest that long-term unemployed people are less desirable job applicants. Thus, the unemployment insurance system has failed to end the stigma associated with joblessness.

Maintenance of Purchasing Power. This view was expressed even before John Maynard Keynes argued for stimulus spending to increase aggregate demand in 1936, supporters of the unemployment insurance claimed that it would help maintain the purchasing power of recipients. Later advocates called unemployment insurance an “automatic stabilizer” because it would add disposable income to people just as the economy began to wane.

With an extremely sluggish economic recovery and high unemployment, the unemployment insurance system has not at all stabilized the economy by maintaining purchasing power. The unemployment insurance system has met none of the original objectives of its proponents.

Weak Job Search is a Major Reason for Problems. The numerous academic studies on unemployment insurance typically show:

- Workers eligible for unemployment insurance benefits remain unemployed longer than those who are not eligible.
- Higher unemployment insurance benefits lead to longer durations of unemployment.
The rate at which unemployed people find work rises dramatically the week before benefits run out.\textsuperscript{11} The academic evidence makes clear that the unemployment insurance system is a disincentive to re-employment, yet almost nobody would turn down a job offer to collect unemployment benefits.

The reconciliation of these conflicting facts requires an understanding of job search. At one time unemployment was typically claimed by people who were temporarily laid off. They collected unemployment insurance while waiting for their employer to call them back to work. Increasingly, however, job losses are permanent rather than temporary, requiring the unemployed to search for a new job rather than wait at home for the telephone to ring.\textsuperscript{12}

Many people find searching for a job to be embarrassing, frustrating, unfamiliar and frightening. Most human beings try to avoid things that are embarrassing, frustrating, unfamiliar and frightening. As a result, the average unemployed person spent just 41 minutes per weekday looking for work in the 2003-2007 period.\textsuperscript{13} Other researchers conclude that average search time was even lower and increased by only 10 minutes or so during the recession.\textsuperscript{14}

**Job Search Intensity Can Increase Overall Economic Performance.** In this difficult economy, people may perceive that jobs simply are not available. That idea, however, is belied by the millions of people hired every month. Employment reports from the Labor Department show net new jobs created every month, but an unemployed person does not need a net new job. He or she can be happy replacing someone who has quit, retired, been fired or died. In recent months the new hire rate has been around 3.3 million people per month.\textsuperscript{15}

Are there jobs available for persistent job seekers? The latest data show about 2.7 million job openings.\textsuperscript{16} And some job opportunities exist that are not technically openings. Occasionally an employer who does not have an open position will create one if the right candidate walks in the door. Suppose the unemployed increased their job search effort from 41 minutes to two hours per weekday. Employers with openings would see more resumes and be able to speed up their hiring. Pushing up the new hire rate from 3.3 million a month to, say, 4.0 million, would sharply increase the net job creation rate, increasing total earnings and take-home pay, and in turn provide beneficial ripple effects throughout the economy.

**Increasing Job Search Intensity.** The unemployed can be encouraged to increase their work search efforts. For example, an experiment found that offering people a bonus for rapid re-employment stimulates job acquisition.\textsuperscript{17} Although the bonuses worked to speed up re-employment, subsequently they were proven not to be cost effective — that is, the cost of the bonuses was greater than the reduction in unemployment insurance benefits paid. However, the experiment demonstrated that the unemployed can be encouraged to find jobs more quickly than they usually do.

Other experiments have shown that requiring unemployment insurance recipients to attend a class on job search techniques speeds up their re-employment. The impact occurred between the time that the recipient was notified of the class requirement and the time the class was to be held. In other words, people found jobs to avoid a class on how to find jobs.\textsuperscript{18}

Another strategy has proved cost effective: personal contact with the unemployed person. The Arizona Department of Employment Security received a grant to experiment with face-to-face meetings with unemployment insurance recipients. These Eligibility Review Interviews cost less than one-third of a million dollars but saved five million dollar in benefits for a benefit-cost ratio of 15-to-1.\textsuperscript{19} The program was discontinued after the grant was depleted, because the current system does not allow savings in benefit payments to be used for administrative expenses.

In a similar experiment, a consortium of employers telephoned their laid-off workers weekly to offer help with job searches. The manager of the program said that the employers’ tone was always helpful, never mentioning that unemployment insurance benefits could be cut off for failure to look

"More intensive job search efforts speed re-employment."
for work. The unemployed people responded positively. Often they seemed to get their tasks done the day before the weekly call, reinforcing the procrastination hypothesis. The consortium estimates that it saved two dollars of benefit expense for every one dollar spent on the program.20

**Staffing Companies Can Assist Unemployment Insurance Recipients.** Though experiments have shown that substantial improvement to our unemployment insurance system can be achieved through personal contacts with the unemployed, most unemployment insurance claims are made through automated systems. Claims are processed more efficiently than in the past, but the unemployed person rarely speaks with a human about services offered and his or her obligations to look for work. Tight budgets limit the personal services that state employment departments can offer. Any new approach will require a cadre of people experienced in dealing with job seekers.

The staffing industry is already a participant in the employment process. Staffing companies employ about three million people every business day. Over the course of a year, roughly 13 million people will work through staffing companies. Most of them, 79 percent, work full time, not much different from the 81 percent of the general work force who are employed full time.21

Workers who have performed temporary or contract jobs through the staffing industry generally find that this experience makes them more employable. Seventy-seven percent say that these agencies are a good way to obtain a job. Many employers who use staffing companies believe that it’s a good method for finding good permanent employees. Furthermore, most staffing companies are set up to provide some training for job applicants.22

By engaging more closely with unemployed job applicants, the staffing industry can speed up re-employment, which will save significant money in unemployment insurance benefits, as well as accelerate the economic recovery.

Speeding up re-employment is very important. The long-term unemployed have more difficulty finding work than those who have recently lost their job, and the effects of unemployment accumulate quickly. One study reported that immediately after becoming unemployed, the probability of finding another job is high: 73 percent. One week later the probability goes down to 50 percent, sliding even further down to 20 percent before six months’ time is up. Declines in the probability of re-employment continue for the next six months, and maybe even later.23 [See Figure II.]

In addition to the statistics on re-employment likelihood, evidence shows that job skills deteriorate the longer a person remains unemployed. Reading and comprehension skills are likely to fade without on-the-job reinforcement, making the person both a less viable job candidate and a less productive worker when finally re-employed.24

Rapid re-employment is beneficial
to the worker, to the unemployment insurance trust funds, and to the economy overall.

**Using Staffing Companies for Rapid Re-Employment**

Staffing companies are for-profit businesses; therefore, they would need a financial incentive to alter their current practices and expand the services they offer. However, the potential savings to the unemployment insurance trust funds is large enough that a win-win solution should be possible.

When considering possible structures, it is worth pointing out that staffing companies vary widely in the range of jobs that they support. Some specialize in specific industries such as nursing, accounting or information technology. Others provide workers for a broader array of jobs in clerical, industrial and many other fields. A single staffing company is unlikely to serve all unemployed persons, surely not as well as using a combination of firms.

**Potential Models for the Use of Staffing Agencies.** Three possible configurations might be considered. The first would be to initiate a competitive bidding process to select a master staffing company for a metropolitan area. The master staffing company could subcontract with various specialized staffing companies to cover all niches. In this model, one initial point of contact is established so the unemployed know exactly where to go to start getting plugged into staffing industry jobs. Contracts with the staffing companies would require performance standards that each company must meet, and compensation would be based on the level of success the company achieves in placing workers. Finally, the contracts should be reopened to bidding every few years.

A second model allows staffing companies to compete for unemployed people to serve. An unemployed person would choose which staffing company to work with, and the company would be compensated based on performance. That compensation could vary depending on the difficulty of placing a person, just as states provide school districts with various levels of funding for special needs children.

A third model enlists employers who lay off workers to be more active in the re-employment process. These employers might steer their laid-off workers to staffing companies in order to reduce their unemployment insurance taxes. The challenge with this approach is that in many cases, cross subsidies among employers result in a very low sensitivity of a company’s tax bill to the re-employment of its workers. For some companies, their tax bill does not change at all when their former workers receive greater benefits, because the company stays at the maximum or minimum tax rate. In other cases, an additional dollar of unemployment insurance benefits may only raise the company’s tax liability by 10 or 20 cents. If companies are allowed to self-insure for unemployment insurance, they will see dollar-for-dollar savings if they can help their former employees find new work promptly. So long as such firms post bonds to ensure their ability to provide benefits, this approach causes no harm to the unemployment insurance trust funds.

**Challenges in Using Staffing Companies.** There are two significant challenges in using staffing companies to help the unemployed. The first is sometimes called the “two-bucket problem,” where one state fund pays benefits and another covers administrative costs. The second challenge is constructing incentives for the staffing industry to avoid cream skimming.

The Arizona’s experiment with face-to-face meetings vividly illustrates this issue. The state saved money in the account that paid benefits, but ran out of money in the account that covered administrative expenses. Employers are protective of the benefits funds, so that their

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**“Use of staffing companies would increase rapid re-employment.”**

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States could solve the problem legally by reducing the unemployment insurance tax and simultaneously establishing a new tax for an equal amount. The new tax would fund re-employment services provided by staffing companies. Because the staffing companies are, in fact, saving the system money for the system as a whole, everyone is better off.

States might also attempt to simply combine benefit funds and administrative funds, though that effort might encounter political difficulties. Employers are protective of the benefits funds, so that their
taxes don’t rise too high. By contrast, state administrators and public employee unions are protective of administrative funds, to ensure adequate resources to pay staff salaries at employment departments.

Cream Skimming. Cream skimming refers to the risk that staffing companies might receive compensation for people who can quickly find jobs themselves (while ignoring the hard-to-place unemployed). One solution to this problem might make use of historical statistics to estimate a person’s employability. Criteria such as education, special skills, industry and experience would determine an individual’s re-employment risk. The staffing company would be compensated less for easy-to-employ individuals (for example, a person with a degree in computer science and recent experience in that field), and more for hard-to-place people (such as a high school dropout with a spotty employment history). In addition, competition among staffing companies would probably lead to compensation structures that reflected the underlying risks.

A good evaluation mechanism would reassure employers that their tax funds are not being wasted, and also prevent cream skimming. On the first issue, if the new model does not save money, then employers will be on the hook for higher unemployment insurance taxes in the future. As for the second issue, staffing agencies would find it unprofitable to place only the highly employable if the fees for doing so are lower.

Conclusion

The unemployment insurance system today fails to meet the original objectives it set out achieve almost 75 years ago. A significant part of the problem is that most of today’s unemployed need to search for new jobs, a task that is uncomfortable. Unemployment insurance provides a backstop against severe privation, but also reduces job search urgency for the unemployed.

The program needs to move in a direction that helps and encourages the unemployed to engage in more active job searches. The staffing industry can provide those services. The potential cost savings in unemployment insurance benefits are large enough to pay performance-based fees to staffing companies and still leave the unemployment benefits trust funds in healthier shape.

The framework of the system must be reconstructed to provide the right incentives, but that challenge is achievable. Experimentation with different configurations and contract terms with staffing companies should begin immediately. Although a new system could be imposed by federal law, it makes more sense to set up several states and metropolitan areas as laboratories to learn how best to set up a program of support for unemployed people through the staffing industry. The time to start these experiments is now.
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