Moving the Demand Side:

Intermediaries in a Changing Labor Market

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INTRODUCTION

Over the last three decades, the U.S. economy has seen a marked shift in the nature of work and production (Cappelli et al. 1997; Moss 1999). Best known is the strong rise in wage inequality and the declining position of less-skilled workers. But these are symptoms of far deeper changes in the economy. Firms have fundamentally restructured their workplaces, driven by global competition, new technology, deregulation, and deunionization. Improvements in communication and information technologies have also allowed for more fluid boundaries between firms, generating complex networks of producers, suppliers, financiers, and marketing companies (Castells 1996, Storper 1997, Saxenian 1994). The upshot is a shrinking of the "core" workforce, where firms subcontract, outsource, and hire contingent workers and where fewer workers can expect stable jobs, on-the-job training, and wage growth over time (Mishel, Bernstein, and Schmitt 2001; Bernhardt, et al. 1999).

What this means is that workers' career paths are being moved outside of the firm. As internal labor markets are dismantled, workers must now find their jobs and improve their skills in the open and increasingly volatile labor market. But that market is not a black box. It contains a host of organizations and institutions that stand between firms and workers and that help to broker the employment relationship – what we call labor market intermediaries. Such intermediaries are not a new phenomenon. For example, public sector employment services have long helped unemployed workers find jobs, and JTPA training programs date back to the 1980s. In recent years, however, such activities have become more important, especially for the most vulnerable workers who have borne the brunt of firm restructuring.

What exactly do labor market intermediaries do? We suggest that it is useful to think of intermediaries as performing three functions.[1] The first of these is job placement: connecting job seekers and employers to one another. Probably the best illustration is the temporary help industry, which has grown dramatically as workers have become disconnected from long-term employment (Belous 1989, Benner 1996). Federal and state employment services are also examples, especially the recent efforts to centralize labor market information and referrals systems within "One-Stop" career centers.

The second function is job training. Now more than ever, workers need to build up the hard skills that will equip them for employment and building a career. As a result, community-based organizations and community development corporations have gone beyond job placement to create training partnerships, often on a regional scale (Harrison and Weiss 1998, Osterman 1999, Pastor et al. 2000). Community colleges often play a key role here, providing customized training for public agencies and employers.

These two functions – placement and training – operate on the supply side of the labor market. They represent the classic workforce development model, where the goal is to better inform and prepare workers and facilitate their connection to jobs. But the jobs themselves, and the wages and benefits attached to them, have often been taken as a given by placement and training intermediaries. This is not to downplay the critical variations in the effectiveness of different intermediaries – and the difference this makes for workers' lives – but it is clear that this strategy has inherent limits when job quality itself is on the decline.

[1] Related typologies can be found in Dresser and Rogers (1997), Carre and Joshi (1997), and Osterman (1999).

Here we explore a third demand-side function of intermediaries: the degree to which they change the distribution of jobs being generated by employers.[2] Historically, it has largely been governmental regulations that have fulfilled this function – for example, via the minimum wage, the Fair Labor Standards Act, or OSHA regulations. At times, unions have also been able to boost job quality (where they have had high density), as have economic development programs (when designed well).

If intermediaries are beginning to play a stronger role in the labor market, then it is important to ask whether they, too, are affecting the demand side of the market. They might do so consciously, for example by using a combination of sticks and carrots to convince employers to create better jobs. They might do so unconsciously, where the very fact of their existence in the labor market actually changes the structure of it. It is also possible that intermediaries have both positive and negative effects on job quality, as we will show below.

We therefore ask the following questions in this paper: (1) To what extent are labor market intermediaries changing the labor market itself? (2) What are the different ways in which they are doing so? And (3) what are the net effects on the quality of jobs? In addressing these questions, our main focus is on the types of jobs that are primarily filled by workers without college degrees. Clearly, firm restructuring has had a significant impact on the careers of all workers and intermediaries are gaining importance across the board, regardless of education level. But it is less-skilled workers who have experienced the bulk of wage declines and growing job instability over the past three decades, and it is critical that we understand the role of intermediaries in either alleviating or exacerbating their working conditions.

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[2] Another way to think of the placement and training function is through the prism of solving information problems in the labor market and hence better *connecting* the demand and supply sides. While this is also a sensible categorization, here we use the supply- and demand-side distinction to identify whether or not intermediaries affect the job structure.

The paper proceeds as follows. We begin by describing the research project on which this paper is based: a qualitative study of labor market intermediaries in two U.S. cities, consisting of case studies of the intermediaries themselves and the employers and workers connected to them. Our findings consist of several parts. We first argue that most intermediaries seem to be having little influence on the overall structure of the labor market. We then focus on those few intermediaries that actually have had an impact on job quality, and describe in detail several different models that emerge from our data. We conclude by discussing the implications for the design of intermediaries and the public policy responses that are needed to foster the better versions.

DATA

The research reported here was carried out in the Summer and Fall of 2000 in Milwaukee, Wisconsin, and the Silicon Valley (Santa Clara and San Mateo Counties) in California.[3] These two areas were chosen because they represent very different labor markets. Silicon Valley is the archetype of the high-tech economy, while Milwaukee has maintained a strong manufacturing base throughout the past three decades. Yet both regions are dominated by service industries, accounting for 75 % and 68% of employment, respectively. Both have also seen rapid growth in the temporary help industry, which increased by 193% in Milwaukee between 1984 and 1996 and by 174% in San Jose between 1984 and 1998. So despite their

[3] In addition to the authors of this paper, the following researchers participated in the study: Chris Benner (Pennsylvania State University); Bob Brownstein (Working Partnerships USA); Laura Dresser (Center on Wisconsin Strategy); Rachel Rosner (University of California, Santa Cruz); Laura Leete (Willamette University); Eric Parker (Center on Wisconsin Strategy). The research reported here is part of a larger two-year study of the role of intermediaries in the two regions. It will ultimately include a representative survey of workers to estimate the incidence of intermediary use and its effects, as well as analysis of Unemployment Insurance data to estimate the amount of job instability by industry. Interested readers should contact the authors for more information.

diverse industrial structures, these two regions show similarity in sectoral shifts and work reorganization.

The case study research was conducted in tandem across the two cities, using the same methods and protocols. We began with a series of focus groups with representatives of a wide range of intermediaries. Our goal was two-fold: to get a broad overview of the landscape of intermediaries in each region, and to get about 30 nominations for typical (as opposed to exemplary) case studies. From the outset, our focus was on intermediaries that serve workers without college degrees and on the types of jobs that they are most likely to hold.

Case studies were then selected from the nomination list, with at least two cases in each of the following five categories: temp agencies, community-based organizations, community and technical colleges, membership-based organizations (such as unions and professional associations), and public agencies (such as welfare-to-work agencies and private industry councils). In-depth interviews were conducted at each intermediary, typically with 2-3 staff members and lasting between an hour and two each. We then attempted to interview at least two employers and two workers who were connected to the intermediary; in many cases the total was higher. In the end, a total of 146 interviews was conducted across the two regions.

Standardized, semi-structured interview protocols were developed separately for the intermediaries, employers, and workers. The content of the interviews was straightforward. Of intermediaries, we asked what services they provided and for whom; barriers and challenges they encountered; funding sources; and relationships to employers, workers, and other intermediaries. As much as possible, we tried to gather "hard" data (e.g. placement rates, average placement wages). Of employers, we asked about their reasons for using the intermediary, as well as their business strategy, workplace organization, and wages and career paths. Of workers, we asked

about their employment history, how and why they contacted the intermediary, the services they received, and the jobs they ultimately found.

We should emphasize that this research has been conducted in a period of extraordinarily tight labor markets. Both focus groups and detailed interviews suggest that intermediaries have been scrambling to maintain worker supply, with some employers expressing concern over worker quality even as many workers experience rising wages, declines in the wait period for health insurance, and other upticks in their conditions. This implies that we were able to observe intermediaries in some of the most favorable conditions for success, since employers were especially eager for workers and therefore more willing to enter into relationships with a wider range of intermediaries. At the same time, our findings may not apply to more "normal" economic conditions, where there might be fewer incentives for employers to engage with intermediaries that are trying to set higher standards in the labor market..

LIMITS OF THE SUPPLY-SIDE STRATEGY

Labor market intermediaries – temp agencies, welfare agencies, community colleges, union hiring halls, community-based organizations, and many others – generally focus on providing two services: connecting workers to jobs, and/or training workers so that they can get better jobs. While there is considerable diversity in both how these services are provided and in the degree of success, labor demand is generally taken as a given and the focus is on improving individual outcomes via better placement and training. We label these approaches supply side strategies.

Consider, for example, public agencies and community-based organizations. Their clients are typically disadvantaged workers, who come in, go through a skills assessment, and are then referred to either a job opening or to further training or GED classes. Along the way, the organization may also coordinate access to welfare funding, child care, health care, and so forth. In more sophisticated versions of this strategy, the organization will analyze the job market, identifying good openings and career paths and (in the case of the One-Stop Career Centers) trying to provide a centralized information source.

Community colleges are another good example. In addition to regular classes, these colleges have begun to offer "contract training" for employers, designing customized classes for the firm's workers. The employers often help design the training curricula and in some cases will sit on business advisory boards to help the college in designing other classes. When done well, the result is better and more efficient training programs in the region.

A final and interesting example is professional associations, which tend to be more common in Silicon Valley than in Milwaukee. These associations – for computer programmers, web designers, and the like – provide opportunities for networking and for sharing technical information and know-how. The networking in particular facilitates job matching in an industry that is in constant flux and where workers rarely stay with one employer for any length of time.

The services that these and other intermediaries provide should not be undersold. They often require an immense amount of work and effort and coordination across different bureaucracies, all the time trying to improve workers' outcomes. But the strategy is inherently limited. For example, since welfare-to-work agencies have no lever on employers, they end up placing significant numbers of workers in low-wage, dead-end jobs. Similarly, community colleges can work closely with employers in devising customized training, but frequently have

no say over the jobs that the training is for. And professional associations may allow workers to build their careers more effectively across employers, but the jobs themselves are not touched. In short, intermediaries that operate on the supply-side are "takers" in the labor market.

CASE STUDIES OF THE DEMAND-SIDE STRATEGY

Of the intermediaries we studied, we found that most do not fundamentally affect the organization of a firm or the quality of its jobs. However, there are two types that may, in fact, have a significant and lasting impact on firm or market structure. These are temporary agencies and union-based initiatives, and we examine each in turn.

Temporary Agencies

In the two labor markets studied, we found that temp agencies can have a significant and lasting impact on firms and job quality. There are both indirect and direct effects. First, simply by meeting the demand for contingent labor, temp agencies are supporting and even cementing the externalization of work. Second, temp agencies are increasingly affecting firm structure in deeper and more direct ways, including taking over the operation of entire departments and consulting on workplace redesign, outsourcing, and financial and legal decisions.

The most prevalent way that temp agencies affect job quality is simply by existing and providing their services. This is best illustrated by contrasting the employment strategies of two firms, one that relies heavily on temp workers and one that cannot due to a union contract. The first, a book binding company, pays wages that are close to the minimum, has a very high turnover rate, and maintains a large number of temp workers. It uses a temp agency which

recruits, screens and hires workers, doing all the paperwork and paying all unemployment insurance and workers' compensation costs – the agency may have to call up to a 100 workers in order to hire 15 for a two-day stint. Although the temp agency expressed frustration at the difficulty of finding so many workers for such little pay, it has not been able to convince the employer to raise wages. The company clearly feels little incentive to make any changes. True, the temp agency charges a 55% markup on hourly wages, but it has taken over all responsibility for the workers before, during, and after the employment contract. In short, the strategy works – and the more it works, the less pressure there is to change it.[4]

The second example, a large packaging and delivery firm, illustrates what kinds of strategies a company might employ when the "low road" is closed off. Packaging jobs at this firm are very difficult, requiring intense physical labor for 3-5 hour cycles, with 2-3 hours of dead time in between. While this kind of work would appear tailor-made for temporary unskilled day labor, this branch of the company is unionized and the use of temp workers is prohibited by the union contract. As a result, the packaging jobs are all permanent part-time. Wages are above average for the skill level required and benefits are excellent. Still, turnover is high, and the company is having a very hard time finding workers for the strenuous jobs.

In order to solve its staffing problems, and without the option of turning to a temp agency for the answer, the company is exploring several innovative solutions in order to recruit and retain workers. One approach is to convert the part-time jobs into full-time, by creating a "combination job" in which a worker does one cycle of packaging and then spends the rest of the day at non-manual tasks, such as clerking or package marking. A second approach is to establish partnerships with other businesses in the area that also need part-time workers, in effect creating

[4] The company argues that it needs so many contingent workers because of the seasonal nature of its work, but other binderies in the region have learned to diversify their products and are therefore less cyclical.

a full-time job across two employers – and the packing company would pay full-time benefits. Both strategies increase job quality even as they solve the employer's retention problem.

However, the packaging company is an anomaly, and in a labor market characterized by proliferating temp agencies and decreasing unionism, using temp workers has become such an integral part of many firms' strategies that it is no longer considered an alternative, but rather the norm.[5] One company we interviewed, for example, regularly sends off-the-street applicants to a temp agency, which then takes over the hiring process. It is telling that the human resource manager of this firm expressed genuine surprise and near embarrassment when discovering on her computer the high number of temp workers she uses. In short, by providing attractive services without demanding any concessions from employers, temp agencies allow them to take "low road." Judging from national studies of contingent work, the net effect on job quality here is likely negative (Kalleberg, et al. 1997).[6]

The Milwaukee labor market illustrates another indirect effect of the presence of temp agencies. The region has a growing spatial mismatch between where workers live and where the jobs are, often called the "doughnutization" or "hollowing out" of the city center. As employers move into the suburbs and workers remain stuck in the city center, transportation becomes a serious problem. The public sector in the region has largely failed to solve this problem. Temp agencies have jumped in to fill the void, by starting their own "express" buses that link major public transfer routes to specific manufacturers. Although the buses are often not free for workers and although the commute takes a long time, many less-skilled workers find this is the

[5] By 1996, a full 78 percent of establishments reported using at least one type of flexible staffing arrangement (Houseman 1997).

[6] Our focus groups with other intermediaries, particularly community- and labor-based organizations, revealed a similar concern that temporary agencies were contributing to an erosion of job quality – though part of this may be due to the fact these organizations were increasingly competing with temp agencies and having to serve the less-skilled workers that the temp agencies refused to place.

only viable option for finding a decent job. And the broader impact on urban sprawl is also negative: by having a steady stream of workers bussed to them, suburban companies have little incentive to move back to the city center and restore the job base of the city proper.

The final and perhaps most interesting way in which temp agencies are effecting structural change is much more direct than the above examples. The temp industry is undergoing a marked stratification, driven by both the maturation of the industry and the tight labor market. In the lower strata remain the temp agencies of old, merely providing the requested number of warm bodies for any number of semi-skilled jobs, known as "body slamming." The upper tier of the temp industry, however, increasingly has a more direct and deeper influence on the actual structure of the company. This is seen, for example, in the growing number of temp agencies in both regions who report that they are primarily hiring for temp-to-perm and permanent jobs; while part of this shift is due to the tight labor market, it also signals a broader trend where the agencies are essentially becoming the key screener or interface between workers and firms.

However, the most profound change is seen in the rapid growth of "on-premise" arrangements, whereby the agencies actually set up shop inside the company. In the Silicon Valley, for example, one of our temporary agencies reports that such on-site arrangements began twelve years ago and that now a special sub-division within the agency is devoted entirely to the significant number of these contracts. In Wisconsin, a major temp agency had created a branch of its company specifically catering to and physically located within the client company. There is an on-premise manager who has full profit and loss responsibility for the account. The agency has taken over one department entirely and others partially, controlling staffing, training, advertising, and production flow. Workers under the agency's control are employees of the agency, not the firm, often for long periods of time. In yet another example, the temp agency

had control over fully 85 percent of the workers not involved in the central production unit, some of whom have been with the agency for as long as 12 years.

The net effect is that "on-premise" arrangements allow firms to functionally outsource certain areas of work that are not the center of production while still keeping them on-site. For these types of services, upper-tier agencies negotiate multi-year contracts numbering in the millions, and they are often named the exclusive national provider for the company. They usually also become the "master vendor," subcontracting to middle-tier agencies for temporary workers that they can't provide themselves.[7] And in what we were told is the wave of the future, temp agencies are starting to move into consulting services, devising strategies for cutting costs and analyzing workflow, job design, and production.

For example, one agency advised a telemarketing company suffering from high turnover to train its workers. With the implementation of a training program and increased wages, the turnover rate decreased from 800% to 200% and worker hours increased from 35 to 40. In this case, the consultation had a positive effect on job quality. But in another company, which pays very low wages for strenuous physical labor, the temp agency did not attempt to change the job structure and merely continued to provide workers. This temp agency, while used to meddling in the financial and technical decisions of companies, maintained that "it's not for us to say that the company shouldn't be paying the minimum wage."

It is therefore an open question how these new relationships will affect job quality. Inasmuch as temp agencies advise employers on the kind of jobs needed to attract and retain workers, there is potential to have a positive impact. We suspect, however, that this potential ultimately has its limits. In the end, the company is always the client to which the temp agency

[7] In California, these have created opportunities for minority-owned smaller intermediaries.

caters (not commands); consulting services only reach as deep as the employer allows. Temp agencies can only convince employers to "take the high road" if doing so would improve the bottom line – and usually only in the short-run. What is needed, then, are new approaches that can both improve job quality and devise "win-win" strategies where employers may also gain.

Union-Based Initiatives

Sectoral Partnerships

The Wisconsin Regional Training Partnership (WRTP) is an example of an approach in which all agents participating experience some gain. A consortium of manufacturers, unions, and public-sector partners in the Milwaukee metropolitan area, it was founded in 1992, with unions playing a key role in initiating and maintaining its strong workers focus. The goal of the Partnership is to support the creation of high-performance workplaces and quality jobs in the region and to ensure an adequate supply of skilled workers to fill those jobs. Seventy employers from metalworking, electronics, plastics, and related industries are members – a significant share of the regional market. They employ more than 60,000 workers, who are represented by industrial and craft unions. At the core of the Partnership is a series of channels for communication, planning, and implementation between employers and unions to solve common problems. Joint management-labor working groups focus on three issues: plant modernization (a key need in this sector), training of incumbent workers (to enable modernization and internal promotion), and training of new workers (via a program to link inner-city residents to good jobs). Cementing this triad are the Workplace Education Centers, which are on-site at most of the member firms and are linked to technical colleges in the area. These centers provide skills upgrading and training to meet changes in production and technology, as well as basic education

and GED preparation. While initially subsidized by public funds, the employers now spend $20 million annually to sustain these Centers.

The logic behind the WRTP is to marshal as many resources as possible to push participating companies toward a high-performance, "mutual gains" model, in which both the firms' profits and workers' wages and careers are sustained. The logic is simple, at least in theory: provide collective solutions to problems that single firms can't afford or devise on their own, with the price tag of good wages and benefits, job security, and career ladders for workers.[8]

For example, single firms (especially smaller ones) have a very difficult time knowing exactly how to modernize and implement new technologies, never mind having the resources to re-train workers. Shared resources on the first front, and joint training pools on the second, can make the difference between choosing the high road and creating quality jobs, or sticking with the low road and even moving out of Milwaukee to non-union sites. The training of incoming workers fulfills a similar function. Wisconsin manufacturing was hit with tight labor markets and an aging workforce well before the rest of the country, and finding young workers who could operate the new machinery became increasingly difficult. The WRTP assures a sustained flow of skilled incoming workers, by partnering with technical colleges and public agencies to provide customized training. A major employer in the region reports that this "managing of supply" allowed him to stay in Milwaukee and actually expand his plant.[9]

Finally, it is also important to recognize that a low-wage business strategy brings its own set of costs – shirking, absenteeism, and lack of commitment and worker buy-in. These are incentive problems that the traditional internal labor market was good at solving and that the

[8] See Neuenfeldt and Parker (1996) for a full discussion of the incentive structure.

[9] A broader benefit of the new worker training is that it is provided to disadvantaged residents from the inner-city, thus opening up access to high quality jobs that had previously been closed off.

partnership model can also address. For example, worker-management teams charged with modernizing the workplace yield many of the benefits of employee involvement (Levine and Tyson 1990). The WRTP has also successfully worked with several firms to convert temporary jobs back into permanent jobs, by documenting in concrete terms the loss of revenue from the contingent strategy.

Thus the promise of the sectoral partnership model is that it can actually change the nature of jobs being created.[10] But is it quite difficult to pull off. It requires a critical mass of employers and preferably unions in a given sector, as well as any number of public partners, such as community colleges, Private Industry Councils, and community-based organizations. Coordinating among all the different players and identifying the interests and potential contributions of each is an enormous and constant challenge. There may also be inherent limits to the sticks-and-carrots approach. One manufacturer happily uses WRTP's services in designing a mentoring program for its new Latino workforce, but has so far resolutely stuck with its ten-year long relationship with a temp agency for recruitment.

Finally, the partnership model works best when unions are present, though we should point out that their role is not simply (or even mainly) to "force" the partnerships onto employers. Perhaps even more important is that they are the best source of worker voice: joint initiatives of the type just described can only succeed with sustained input from the worker side. Over and over again, employers trying to change their production and service delivery systems have quickly learned that knowledge from the floor is critical to the process – about what should be improved, whether the new technologies and machines are working, safety issues, what training should actually look like. So at least in theory, alternative forms of worker

representation could be used to build sectoral partnerships.

Hiring Halls

Two craft unions in Milwaukee and San Jose – the electricians and the plumbers – illustrate the power of the hiring hall model to essentially run a labor market that is in constant flux. The construction industry is based on short-term projects and requires highly skilled workers from a host of building trades. Unions solve the coordination and training problem by operating hiring halls and the apprenticeship programs that are intimately tied to them. The general structure of hiring halls is simple. Employers call the hiring hall with the number of workers that they need. The dispatcher of the hall then assigns union workers to the jobs, based on a ranking system. Workers who have completed the apprenticeship and who have four or more years of seniority are at the top of the list; apprentices and inexperienced workers are ranked at the bottom. The apprenticeship training programs are very intensive – including both classroom and on-the-job training and mentoring – and typically take four or five years to complete for the higher skilled occupations. While there are variations on this structure in the various trades, the overall logic is the same.

A key component is the role of employer associations, which have a long history in this industry. The employer groups bargain collectively with the unions, jointly fund the apprenticeship program, and contribute to joint health care and pension funds. Employers who use the union hiring hall usually join the local association and usually have to commit to being a "closed shop" (hiring only union workers). It is important to understand that there is a strong governmental hand in the structure of this model. The Taft-Hartley Act of 1947 established and

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[10] Hence the US Department of Labor has recently put its resources into a review of the partnership model (see Working for America Institute 2000) and has funded several partnerships across the country, including the

continues to regulate the multi-employer benefit and training funds; it also allowed for the closed shops which are so critical to union leverage. Similarly, the operation of the hiring hall was developed by the U.S. Department of Labor, which laid down guidelines in the 1950s. With a few exceptions, this system is unique in American industry.

Job quality is extremely good: the work is hard but is definitely compensated well. Plumbers in San Jose start at about $16/hr. as apprentices, going up to $42/hr. once the training has been completed; for electricians in Milwaukee the numbers are $10.12 and $25.29, respectively. Health and pension benefits are generous and start immediately, in addition to sick leave, vacations, disability, etc. While this may seem an expensive proposition for employers, they also have much to gain: a steady supply of labor, an intensive and standardized training program, and pooled benefits funds.

As a model for controlling the demand side of the labor market, the union hiring hall seems unbeatable. The key to making it work is the high skill requirements of the occupations involved and high union density (as well as the exemptions granted by Taft-Hartley). First, it is essentially monopoly control over quality skill that keeps employers coming to the hiring halls, and so there are serious questions as to whether a similar model would work, for example, in retail industries (as some have suggested). Second, many of the trades had almost complete union coverage in big markets and so had considerable leverage in bargaining over job quality. But deunionization has occurred in the construction industry as in the rest of the economy over the past three decades – partly because of governmental deregulation and increasingly lax labor laws, partly because of complacency and exclusionary strategies on the part of the unions.

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expansion of the WRTP into several new sectors.

There are signs, however, of renewed vitality. In both the electrician and plumber trades, skill requirements have been rising because of new regulations, technologies, and work materials. Union leaders are recognizing that their apprenticeship program is a big draw – non-union programs are notoriously inadequate and have not kept pace. The head organizer for the Milwaukee electricians is devising new strategies on this basis, aggressively trying to sign up employers (not just workers!) with a glossy menu of incentives. Overcoming the history of exclusivity is also a key ingredient – in the past, building trades unions have had few ties to community-based organizations and kept a tight fist on their jobs, employing few women or people of color. Starting to build these relationships, and in particular, partnering with community colleges for pre-apprenticeship training, will be critical for building new membership.

The Temporary Alternative

A final demand-side model is offered by Working Partnerships USA, a labor-affiliated think tank and advocacy organization in the Silicon Valley. This model has three components: (1) the creation of a best-practices temporary agency in order to set high standards for the industry, (2) the formation of a temporary workers' membership association to lobby for change, in part through a code of conduct (á la Living Wage ordinances) designed to set a minimum standard of behavior for the temp industry, and (3) efforts to improve access to training for workers who are clients of the staffing service and the membership association, with a longer-term eye toward improving training in the temporary industry as a whole.

Probably the most unique of the three components is the creation of a new staffing agency with a higher "minimum wage," quicker access to health insurance, and better

protections at the job. In a sense, this is an attempt to employ the market to improve the market: in theory, as workers become attracted to the agency's better package and firms notice the cost-savings from higher-quality, more satisfied workers, all firms will adopt the new agency's standards or labor practices.[11] The adoption of this "market innovation" strategy to drive the industry to the high road partly reflects the fact that union density is low to non-existent in the temporary industry (as compared to the significant union presence in the sectors that are the object of WRTP and the hiring halls). The goal of the staffing service is to act as a substitute, helping to gain a sectoral toehold for worker representation and the improvement of job quality and working conditions.

The second component of the model is a direct effort to enhance worker voice, via the Membership Association. After a slow start, the association has been growing rapidly and now has more than 400 members: two-thirds are workers that have registered with the staffing service and one-third are other interested temporary and low-wage workers, with these numbers complemented by an advisory group of community and labor activists. The immediate advantages of membership include access to a group plan that provides portable health benefits and access to special training opportunities. More generally, the membership association is intended to be a place where workers can share experiences, serve as a sounding board for new policy ideas, and advocate for change in the industry.

At this point, the main thrust of advocacy involves a code of conduct for temporary agencies. Such a code would set a minimum wage and establish basic rights, including agency neutrality in union organizing efforts, clear descriptions of jobs and explanations when promised

[11] Another temp agency in the Santa Clara region is also working with hard-to-place individuals in the context of a for-profit structure. The goal is to show that this strategy can be profitable, thereby inducing the rest of the market to follow suit. While there are similarities with Working Partnerships, the missing ingredient is an explicit focus on boosting quality on the demand side (as with the Partnership's code of conduct campaign).

employment is cut short, relatively rapid access to group health insurance, first crack at temporary jobs that become permanent, non-discrimination for reporting workplace hazards, and other provisions that would likely improve job quality and worker welfare. Similar to living wage campaigns, the code of conduct campaign is lobbying public agencies to give preferential treatment to temporary agencies who sign and abide by the Code of Conduct (for example, when using government funds to place welfare-to-work clients). In April, the local county Board of Supervisors voted to survey temporary agencies that provide services to the county to see whether their practices align with those specified in the code; as of October 2000, however, no temporary agencies had completed the county survey.

Finally, the third component of the model focuses on training. The staffing service and membership association have been working with a local community college to address the varying needs of their clients and members via three tracks: a basic skills track for welfare-to-work clients,[12] a computer training program for temporary workers, and a series of one-time "soft skills" workshops for participants in the membership association. The college offers these courses exclusively to Working Partnerships clients, funding the classes with welfare-to-work funds and institutional grants. While the classes initially followed an 18 week schedule, the computer classes have been reworked into independent units to accommodate a drop-in model. Since July, an average of 15 people monthly have used education benefits, a growing number but still low given the size of the industry and the need.

While the Working Partnerships experiment is less than two years old, there are already several lessons. The most critical is that an effort to launch the "temporary alternative" with all three components simultaneously was overly ambitious. For example, the staffing service

[12] Working Partnerships has contracted with the state to train and place 20 welfare-to-work clients who are completing the training program at the community college.

stumbled at the outset, because the barriers to entry into the temp industry are significant and because specialized brokering skills are required. The agency recently hired an industry professional, which has helped to significantly boost sales and placements. As of December 2000, the agency was placing between 20 and 25 workers a week; while continued growth is expected, it will clearly be some time before sufficient scale is reached to have an impact on the rest of the industry.

Aside from start-up challenges, the staffing service has discovered that the vision of its original clients – disadvantaged workers – inhibited its ability to articulate a training program to place them successfully. Such workers fall into two distinct categories: unemployed workers and the working poor. While the unemployed need to be connected to the labor market, the working poor benefit more immediately from the demand-side strategy of setting labor standards. The agency therefore began by targeting the semi-skilled employees who were "ready to work" and placing them in $10-$15 jobs. At the same time, the agency began to build an infrastructure to support unemployed workers and provide ongoing training to others. The idea is to first build a reputation or "brand" with employers, and then tackle the harder-to-serve workforce.

On "branding," the agency first sought to target employer clients sympathetic to the agency's union ties and social mission, including governmental agencies, unions, and non-profit organizations. However, these actors use temporary workers sparingly, and so the agency expanded its focus to small and mid-size firms that constitute the growing market. These firms are generally not concerned about the social mission, the code of conduct, and the workers' association: their priority is worker quality, especially since many are in the start-up phase where missteps and worker turnover are extremely costly. As a result, the staffing service has

tried to stress how its superior wages and benefits translate into higher quality employees – and also kept its margins low to ensure that quality is not too expensive. Private firms currently comprise over half of the agency's clientele.

A final lesson is that returning to the originally targeted clientele – and securing both a permanent niche in the market and avenues of advancement for temporary workers – requires a better training infrastructure. Most critical is making training available on a drop-in basis so that workers can combine it with employment; developing internal training capacity for the agency (apart from the community college relationship) is also reported to be a key goal.

DISCUSSION

When faced with the externalization of the employment relationship, labor market intermediaries have two options. They can either accept externalization and proceed without firms, trying to improve worker outcomes by improving the operation of the supply side of the labor market. Or they can try, with a combination of carrots and sticks, to draw firms back into the employment relationship by altering the incentive structures facing them. With the first route, it is almost impossible to affect the quality of jobs being created – the intermediary simply becomes a "taker" in the job market. In the second route, the intermediary becomes an actor and shaper of the labor market itself. While both approaches can help workers in the short term, the second holds the promise of bringing about more long-lasting improvements in job quality and worker well-being.

What have we learned about intermediaries who affect the demand side of the labor market? First, as noted above, intermediaries can have both negative and positive effects. As

our case studies of temp agencies illustrate, any number of actors can step into the arena and provide services that employers and workers need – without necessarily having the best interest of the workers in mind. Sometimes the effects on job quality will be good, sometimes they will be bad. The likelihood of a poor outcome rises when agencies are "leaning with the wind" – that is, exacerbating market dynamics – rather than seeking to establish standards that force firms to find better routes to productivity and cost-cutting. It is therefore critical that policy makers pay close attention to the more pernicious forms of intermediation and move quickly to try to limit their realm of action.

Second, 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. The logic is to change the terms of trade in the labor market (by establishing, for example, a minimum threshold for temp wages), at the same time that collective action problems are recognized and solved (particularly the tendency to underinvest in training). The Wisconsin Regional Training Partnership and the craft hiring hall model clearly tap both of these dimensions. Each intermediary brings union power to the table (the stick) and each also solves a number of collective action problems for employers (e.g. the carrot of jointly-funded benefits or training pools that otherwise would be too expensive).

This strategy differs from the "market innovation" approach pursued by Working Partnerships. Partly because of low union density, the strategy here is to enter the temp industry with a progressive business model, coupled with advocacy to force the rest of the industry to adopt higher standards. While creative and promising in concept, this strategy offers diffuse incentives to firms (compared to the clear and specific incentives in the above two examples), the stick aspects of the strategy are still nascent (i.e. the temporary workers association and the code

of conduct), and the critical element of training infrastructure is still underdeveloped. Given the start-up nature of this effort, the jury is still out on whether it can reach the scale needed to effect change across the industry.

If the best strategy is for intermediaries to push-and-pull, then this inevitably raises the question of worker power and the lack of union density in many sectors. For example, would the incentives that the WRTP offers be sufficient in the absence of the partnership's unions? Can a "temporary alternative" such as Working Partnerships fill the union role with a successful business model and concurrent political pressure to adopt and enforce a code of conduct? On the WRTP side, there are several experiments with non-union partnerships currently underway, and in the end, the answer will likely depend on the specific industry and labor market being targeted (Dresser 2000). As for Working Partnerships, it has actively pursued community-labor coalitions so as to strengthen the hand of labor against an extremely strong business sector in the Silicon Valley.

On the other hand, union density remains significant in major metropolitan areas and in big firms across a host of industries (not just manufacturing, but also grocery stores, health care, hospitality, and telecommunications, for example). In fact, this is precisely the goal of the partnership model: to become firmly established in core regions and employers and then to use that leverage to reform the rest of the sector. And the potential of community-labor political coalitions is that they go one step further, strengthening workers' power in areas where union density is low.

Still, we must acknowledge that the continuing growth of low-wage, non-union service industries – including the temporary industry itself – pose a serious problem for those interested

in improving job quality. It will take continued and innovative experimentation with different types of intermediaries to identify solutions for this part of the job structure.[13]

As a society, there is ample reason to support these experiments. Such support needs to come from enlightened employers, community leaders, and flexible unions – but the public sector has a role to play as well. Government is in a unique position to support the "good" strategies and try to close off the "bad" ones: for example, via changes in labor law, code of conducts, living wage ordinances, incentives for collaborative training, etc. Funding is also critical here. While the "good" initiatives may eventually be able to exist on their own, most often they need public support at the outset (e.g. the DOL grants).

It is worthwhile stressing this point. Relying on the market alone to correct the problem of low-wage jobs and rising instability will only get us so far. The intermediaries that the market generates are bound by the bottom line. Thus temporary agencies have one dominant goal: making profits by providing workers and consulting services to firms. As we pointed out earlier, job quality will improve under this model only insofar as profits for the client company are boosted – and even then, there is often resistance. Intermediaries who instead have the conscious and explicit goal of improving job quality may have a better chance of meeting that objective (although they must develop a viable business model in the process). However, such intermediaries will emerge not from the market but from actors with a broader social mission, and they need to be nurtured and supported with public resources. This suggests a clear role for public policy in shaping the future of the American labor market.

[13]Key here will be figuring out a way to unionize the bottom of the service sector, which will take significant reform on many fronts – not only in labor's willingness to adopt a new constituency and new organizing tactics, but more importantly, in labor law itself (see Commission on the Future of Worker-Management Relations 1994).

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