

Welfare That Works

Beyond the New Deal

David Pinto-Duschinsky

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Foreword

Why welfare-to-work needs employers, and why employers need welfare-to-work

Welfare-to-work was always going to be about employers. The launch campaign portrayed New Deal as a revolution, with flag-waving bosses in the vanguard. In reality, employers have yet to become involved to the degree that was hoped for.

The Government, and the organisations through which it has delivered its welfare-to-work programmes, have achieved some impressive results, and Gordon Brown is now using the long-discarded language of full employment with confidence. It has been recognised for some time, however, that for the New Deals to really move up a gear, much closer links must be developed between the welfare-to-work system and firms.

To do this, delivery organisations need to offer services which are of long-term commercial value to employers; alongside accountants, maintenance companies, IT contractors and recruitment consultants, they need to become established suppliers. Employers must also invest some time and effort in building these customer relationships. Operating in a tight labour market and facing chronic skill shortages, employers have much to gain from developing these additional recruitment strategies.

Mutual goodwill will not be enough to make these relationships work, however. They need to be underpinned by a set of institutions that effectively link jobseekers to firms, and programmes to specific skill needs. These institutions will be very different to those we have now. This Demos Argument sets out a vision of what they might look like, and considers the more immediate implications for Government, delivery organisations and businesses.

Where we are now

The New Deals have changed the way we think about services for unemployed people. Over the last three years, there has been significant innovation in service design, much of it centred on the Personal Adviser. The delivery system has also undergone important changes, including the development of a more customer-focused culture within the Employment Service, the establishment of effective local partnerships of service providers, and the entry of private delivery organisations into this arena.

These innovations, along with a significant investment, have delivered worthwhile results. Independent evaluation of New Deal for Young People suggests that it has had a significant impact on long-term unemployment amongst eighteen to 24 year olds, and that a substantial part of the cost has been offset by benefit savings and increased tax revenues.

In many respects, however, the New Deals are simply a first step. No-one would deny that the New Deals have had their limitations, as well as their successes. Among those limitations, arguably the two most important are job retention, and the performance of the programmes' more intensive components.

Of those people finding a job through New Deal for Young People, about half have gone back on the dole within six months of starting work. This suggests that for some jobseekers, the programme has not helped to break the 'low pay /no pay cycle'.

Equally concerning are the disappointing job outcomes of the Options – the full-time programmes of training and work experience aimed at those jobseekers who have not found work during the initial weeks of Gateway. Fewer than one in five young people on the Options are known to have left them for a job.

The Government is seeking to address these and other issues through its ongoing review of programme performance and design. An argument which has increasingly informed that review is that too little effort has been invested so far in strengthening the links between welfare-to-work programmes and employers.

The employer link is vital to retention because this depends heavily on the quality of the match between recruit and recruiter.

Relationships with employers are also vital to the success of intensive provision. Too many training and work experience programmes

fail to engage disillusioned participants, have poor employment outcomes, and fail to meet the skill needs of local firms, because they operate largely in isolation from those firms.

If welfare-to-work is to place jobseekers into jobs that turn into careers, therefore, and provide effective progression for those requiring intensive support, it needs to prepare them to meet the precise requirements of recruiting employers. In short, it needs to become 'demand led'.

Working with employers

The feedback from employers regarding the New Deal has not been overwhelmingly enthusiastic. Although there have been thousands of success stories, employers continue to express dissatisfaction with the matching service provided by delivery organisations. Certain bureaucratic requirements, such as NVQ accreditation of in-house training, and the paperwork associated with the employer subsidy, may also have restricted employer participation.

That welfare-to-work programmes must meet the needs of the demand side as well as the supply side is something of a truism. There are various ways in which programmes can and should engage with employers, however.

Providing a recruitment service

Delivery organisations still have much to do improve the quality of the matching service that they offer to employers. As well as being able to support and promote jobseekers, they need to develop a thorough understanding of employers' requirements. They must also stick to those requirements; this is a particular challenge for the public labour exchange, the historical mission of which has been to disseminate labour market information widely and freely. To develop on-going relationships with employers, providers need the ability to make a compelling sales pitch, deliver a high quality service and secure repeat business.

Linking intensive provision to employers' skill needs

Job preparation and vocational training can work far better for participants if they are closely tailored to the needs of specific employers; in many cases, such programmes offer a guaranteed interview or

job on completion of training. For the employer, the programme can represent a highly cost-effective recruitment mechanism, as has been recognised by many major US firms. Establishing a successful relationship is not easy, however; as with anything worthwhile, it takes a significant investment of time and resources by both parties.

There is considerable evidence that customised job preparation can achieve impressive results, placing a high proportion of job-seekers, raising average salary and offering careers as well as jobs. In certain markets, sectoral initiatives seem to have considerable potential. What the various approaches described in this report have in common is that they all involve the creation of new infrastructure and relationships that bridge the gap between long-term workless people and employers.

Welfare-to-work as business support

One of the key propositions of this paper, however, is that as welfare-to-work moves closer to employers, it has the potential to change the demand side, as well as to be changed by it.

One context in which there is a strong case for integrating supply side and demand side initiatives is economically deprived areas; it is hard to follow a demand-led strategy where there is inadequate demand. Welfare-to-work initiatives need to be more effectively joined up, therefore, with regeneration programmes, enterprise schemes, and support for small business start-ups.

Looking ahead, David Pinto-Duschinsky makes a far broader argument. Regardless of the strength of the links between programmes and employers, the ability of those programmes to help jobseekers into living wage jobs with good career prospects will always be constrained by the number of such jobs. Welfare-to-work should therefore be delivered as a part of a range of services designed to help firms to boost their competitiveness and compete on quality rather than price; in the process, it will help to raise their demand for skills and shorten the 'long tail' of low paid, unstable jobs.

Most importantly, he argues that to be effective, these services must be delivered through a radically new set of institutions, within which the lead role belongs to employers, acting through sectoral organisations. Welfare-to-work must also be integrated with the Government's lifelong learning framework, to offer a support ser-

vice which workers will use regularly as their careers progress, and which firms will turn to when their skill needs change.

Moving forward

This vision is some way off. But the argument, and the research into current practice on which it is based, have immediate implications.

Welfare-to-work should be concerned with not only the quantity but also the quality of jobs, particularly in terms of retention and career prospects. Provision for workless people should be closely integrated with lifelong learning initiatives. Employers should be offered a greater role in the design and delivery of welfare-to-work programmes, and they should take up that offer.

Another pressing challenge is to change the rules by which welfare-to-work is delivered. To enable service providers to treat employers like customers, they need to be given more room for manoeuvre. Bureaucratic requirements need to be reduced, and auditing procedures need to be streamlined. Programmes should be financed by simple output-related funding regimes that are invisible to the employer. Rather than having to follow a prescriptive programme design, providers need the flexibility to customise their services.

For the state, this means a greater focus on measuring performance, ensuring accountability and supporting continuous improvement, and less direct involvement in delivery. It also means giving up some control, and some of the comfort that goes with it, in favour of a more balanced partnership between government, service providers and businesses.

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Executive summary

1. If the welfare-to-work system in the United Kingdom is to offer disadvantaged people a ladder out of poverty, it has to become far more effective at moving people into reasonably paid jobs. Placing people in low paid, dead-end employment will not be enough.
2. To provide a path into living wage employment, the welfare-to-work system must undergo radical change. It must be more responsive to the needs of the modern economy and employers. The system must become demand-led.
 - Its institutions should be rebuilt around new bodies led by employers in each sector of the local economy. These institutions would help the system to offer customised training that meets the specific needs of individual employers
 - Welfare-to-work and lifelong learning services should be delivered as part of a broader package of measures to enhance the overall competitiveness of firms and sectors. Unions also have a potentially important role in providing and shaping these services.
 - Welfare-to-work should provide more than one-off interventions to help the most disadvantaged - it should act as a source of training and support that people can use throughout their careers to ensure they have the skills they need to maintain self-sufficiency.

1. Welfare-to-work and the challenges of the new economy

3. Britain is in a poverty crisis. One-quarter of the population – three times as many as in 1979 – have incomes less than half the national average. Despite the short-term success of programmes like the New Deal in reducing unemployment, the government has been unable to reverse the growth in disadvantage which took place over the past twenty years.

4. The labour market has undergone fundamental changes during the past two decades.
 - Jobs in manufacturing have been replaced by those in service industries, which now account for almost four-fifths of all jobs in the UK.
 - Increased global competition and technological change have precipitated a revolution in the organisation of companies. Firms have outsourced non-core activities, increased their reliance on outside service providers and temporary staff, and become more likely to lay off workers.
5. These changes have reduced the number of well-paid jobs available to lower-skilled workers, and have weakened the career ladders which helped people move into higher paid work:
 - The decline of manufacturing and increasing skills demand brought on by technological change have drastically reduced the supply of low-skilled jobs that pay family-supporting wages.
 - Corporate restructuring and the rise of service employment have cut promotion opportunities within companies. Those starting in bad jobs have fewer chances to move on to better jobs.
 - Jobs have become less stable, and it has become harder to maintain a good wage even if one remains employed.
6. Despite repeated increases in expenditure, the welfare state has been unable to successfully tackle either the symptoms or the causes of this problem. Driven by the priorities of Whitehall and service providers rather than employers and the disadvantaged, the machinery of the welfare-to-work system remains better adapted to the manufacturing economy of the 1950s and 1960s than the knowledge economy of the twenty-first century. It is more concerned with rapid placement than with skills and sustaining good employment. The obsolete tools at policymakers' disposal have limited their ability to have an impact on the roots of poverty.

2. Programmes that get people into better jobs: analysing the lessons

7. This paper is based on research into almost 40 programmes, mainly in the United States, that have been successful in moving the disadvantaged into living wage jobs. All of these programmes rely on very close relationships between the programme providers and participating employers.
8. Of the various types of initiative considered, those which place the disadvantaged directly into higher wage employment have been the most effective. The success of these 'demand-led' programmes stems from the fact that they train people specifically for positions that exist with firms.

There are two main types of demand-led programmes:

- customised training – programmes that focus narrowly on providing training for employment in particular (usually large) firms
 - comprehensive service programmes – these offer a range of services to employers in a particular economic field, including training for existing workers, export assistance and technical advice as well as welfare-to-work.
9. The experience of these programmes suggests four main lessons to policymakers.
 - A demand-led welfare system must be highly heterogeneous, with the content and structure of programmes varying by sector.
 - Demand-led programmes that offer a broader range of services have a larger impact on the disadvantaged people and the firms they are serving than more narrowly-focused programmes. They have a greater effect as (a) they aim to improve the performance of a sector by transforming its competitive strategy from one based on low prices to one based on high quality and (b) because they embrace a new model of labour-market support, which sees the initial job placement as only the first step.

- Demand-led programmes must be underpinned by institutions that encourage co-operation between companies. Especially in the UK, where firms are particularly wary of co-operating with potential rivals, job training programmes must be anchored in institutions, like employers' organisations or employer/union collaboratives, that can create incentives for companies to work together.
- Demand-led programmes arise from private action, not legislation. The government must drive change by using its influence and by encouraging co-operation among companies in the area of skills training.

3. The shape of the demand-led welfare-to-work system

10. The proposed system would have two elements:
 - A system core, run by the state, would provide a unified gateway through which people can access all training and welfare services.
 - A delivery system, based in individual industry sectors and underpinned by collective employer institutions, would provide demand-led training and welfare services. The programmes in each sector would reflect the particular competitive demands of that industry and region. The system should eventually cover the majority of jobs. Traditional welfare-to-work programmes would remain in place to serve low-skill, low-wage jobs.
11. The new system would help those in work as well as the unemployed. Those in low wage jobs would be offered places in demand-led programmes to open up access to living wage jobs. The new system would provide a pool of training services that individuals could dip into to maintain their skills levels throughout their career.
12. While the proposed system would entail an increase in spending in the short-term, it might well be off-set by benefits savings over the long-term.

- Much of the increased training expenditure would come from the private sector.
- Training could be paid for using means-tested Individual Learning Accounts (ILAs).
- Those on low incomes would have their training paid for by the government, while those in better jobs would be expected to supplement government money either from their own pockets or with payments from their employers.
- Payments from ILAs to programme providers would be linked to their success at getting individuals into good jobs.
- A new contributory benefits regime would allow people who fulfilled certain criteria to move on to welfare voluntarily so that they could receive demand-led training and move into a better job.

13. The state's role in welfare-to-work would be transformed in the new system. It would have much less control over programme content, and its main focus would be to co-ordinate relationships between firms and service providers and to monitor provision.
14. By providing a forum for networking between firms and helping to generate a rich pool of sector-specific skills, the new system would provide an important building block for the development of a high-skill knowledge economy in the UK.

4. From vision to action: tracing the policy implications of a demand-led welfare-to-work system

15. The government should adopt a three-fold policy strategy to initiate reform. The first strand of policy should be aimed at building acceptance of demand-led programmes. It should consist of:
 - pilot schemes in key sectors and localities
 - engagement with opinion-leaders in national and local business communities
 - an advertising and education campaign emphasising the importance of lifelong learning.

16. Second, government should encourage relationships among firms, and between firms and service providers. It should:
 - provide seed-money for regional and local sectoral employers' organisations and demand-led programmes
 - organise and encourage meetings of firms in particular economic fields and localities
 - restructure Regional Development Agencies and Learning and Skills Councils so that they can help match companies and sectoral bodies with potentially appropriate service providers.

17. Third, policy should concentrate on increasing the capacity of training providers to support a demand-led system, and the capacity of the government's employment, benefit and training apparatus to oversee it. The government should:
 - establish a system of regulation and funding for training providers based on the success of those taking courses in finding good jobs
 - establish a technical assistance service to help demand-led providers establish themselves and spread information on best training practices
 - consolidate the governance, funding and delivery structures of the employment, training and benefits bureaucracies, and bring in a unified IT system
 - build a new skills base among the staff of the state 'working age agency'. The agency should offer its employees a more porous career structure that allows them to work in the private sector and in the non-state run parts of the welfare-to-work system. It should also provide them with more training, to acquire the skills they need to make the system a success.

18. While establishing a demand-led welfare-to-work system that moves people into living wage jobs would entail costs, these would be dwarfed by the price the welfare state will pay if it fails to confront the problems created by labour market change. If the welfare state is to remain fiscally or politically viable, it must stop subsidising labour market failure among those at the

bottom of the ladder, and start creating success. Reform is not merely desirable but essential if the welfare state is to remain a positive force for fighting disadvantage in the twenty-first century.

1. Welfare-to-work and the challenges of the new economy

Britain's Labour government came to power in 1997 promising to 'think the unthinkable' about the welfare state. Dependence on state benefits would be reduced; the cycle of reliance on public assistance would be tackled; 250,000 unemployed young people would be placed into work.

Labour's 'New Deal' measures have been a notable short-run success. The promises of 1997 have mostly been fulfilled. Testimony to this is the fact that unemployment at the beginning of 2001 is at its lowest for twenty years.

Yet, as Tony Blair's first term draws to a close, New Labour's long-term goals have still to be achieved. Several recent reports have argued that the short-run successes of policies designed to tackle unemployment have yet to translate into reduced levels of poverty and disadvantage. Many graduates of welfare-to-work training schemes have gone merely from the dole into insecure, low-paid jobs with few prospects. As it plans for the next term, the government now has the task of tackling not just the symptoms of poverty, but its causes.

The welfare state's greatest challenge is to adapt to new patterns of work and economic activity that have redefined the problems of poverty and disadvantage in the UK. The post-war world of the Beveridge report, with its high male employment, two-parent families, lifelong job and family-supporting wages, has long since passed into the history books. Few today can command a job for life and many seem destined for a life of intermittent employment in low-quality jobs.

Yet, while economic realities have changed, the tools the government has for dealing with them have not. The basic machinery of

the welfare-to-work system is poorly suited to the volatile, skill-driven economy of the twenty-first century. The failure of the institutions of the welfare-to-work system to adapt to the 'new' economy has hampered the effectiveness of the government's work-based welfare strategy.

A new welfare strategy will require a new system, one that is responsive to the structure and the needs of the modern economy. It must be built around employer-led institutions, and align the interests of the disadvantaged and business by delivering welfare-to-work as part of a broader package of services intended to improve the competitive performance of individual companies, and sectors. Finally, the new system will have to play a radically different role within the labour market. It will have to be not just a safety net, but a source of training and support that people can use throughout their career to ensure that they have the skills they need to maintain self-sufficiency in today's dynamic job market.

The growth of poverty and economic change

The UK is in the midst of a poverty crisis. However you measure it, the level of poverty in Britain has risen dramatically over the past 25 years. The number of people living in families with incomes at or below the level of the state safety net has risen by over 50 per cent, despite the fact that it has become harder to qualify for benefits.¹ Three times as many people today as in 1979 – almost one quarter of the population – survive on incomes of less than half the national average.²

Furthermore, those at the very bottom of society have become worse off in absolute terms. Over the past twenty years, people in the bottom 20 per cent of the income distribution have seen their real incomes fall. Amid general prosperity, a substantial proportion of the population, including one-third of all children, face lives of economic hardship and diminished opportunity.

Numerous factors have contributed to the rise of disadvantage in the UK. Government policy has certainly played a role: the shrinking value of state benefits has undoubtedly compounded the hardship of those struggling to make ends meet. So have changes in the structure of communities and families across the country. However, the main forces driving this decline in the standards of living of those

at the bottom of society have unquestionably been economic.

The way the economy works has radically altered over the past 25 years. This transformation has had profound repercussions on the labour market.

- The level of skills that people need to earn a decent income has risen significantly, while the number of low-skill jobs that pay a living wage has fallen sharply.
- Income mobility has slumped - low-wage jobs rarely act as stepping stones to better employment.
- Income and employment stability has fallen, especially among those who used to be able to command living-wage employment. Men, in particular, are less likely to hold jobs for a long period of time, are more likely to lose their jobs and find it harder to sustain good wages even if they retain employment.

These changes are mainly the result of two key shifts in the structure of the economy. Firstly, there has been a fundamental realignment in economic activity away from manufacturing and production towards service industries. Secondly, there has been a revolution in the way firms are organised.

The transformation of the UK from a manufacturing to a service-based economy has had an enormous impact on the well-being of those at the bottom of the labour market, altering the availability of reasonably paid jobs to low-skill workers.

Heavily unionised factory jobs offered workers, in particular men, a unique commodity: low-skill, entry-level work that offered permanent, full-time work and family-supporting wages. At its height in the early 1960s, manufacturing employed almost 50 per cent of the workforce.³ Yet today, undermined by low productivity, lack of investment and ferocious low-price competition from abroad, manufacturing employment accounts for less than 20 per cent of the total.

Work on the production line has been replaced by work behind the shop counter, or at the call centre. As a result, the quality of the jobs that make up the lower rungs of the labour market ladder has in many cases declined. In contrast to the manufacturing jobs that they have replaced, many of the entry-level service positions are characterised by irregular hours, part-time work and low wages.

The move from manufacturing to services has had a profound effect on disadvantage. The numbers of people in low-paid jobs has doubled to over 6 million – a fifth of the workforce – since 1977.⁴ Furthermore, the number of workers (many of them older men with families to support) who have simply dropped out of the labour market altogether has increased dramatically, leaving one in five of the population living in households where no one works.⁵ The shift has had geographical consequences too, leaving the cores of formerly industrial cities without the job opportunities needed to support prosperity and prevent the deterioration of communities.

This problem has been exacerbated by the second major trend: restricted income mobility and access to opportunity due to fundamental changes in the way companies organise themselves.

The natural rhythm of the economy has speeded up dramatically over the past two decades. The pre-eminence of the global market and rapid advancements in information technologies have considerably increased the ferocity of competition. Ideas, products and competitive strategies emerge and are superseded, and niches in the market open and close, far more quickly than they did in the 1970s. In this environment, companies have found it far harder to sustain profits. Increased innovation within the economy has meant that the number of company start-ups and failures in the UK has more than tripled since 1980.⁶ Twenty years ago, if a car company began marketing a new model that exploited a profitable gap in the market, it would take roughly five years for their competitors to bring out a model that could offer a challenge for that segment of the market. Now it takes less than two years.

In this climate of perpetual change and fleeting opportunities, the key to a firm's profitability lies in its ability to respond quickly, with maximum efficiency and minimal cost, to shifts in the market. Unlike the giant conglomerates of the 1960s and 1970s, which sought to diversify into a broad range of activities, today's successful firms focus narrowly on their core activities. All other activities, for example marketing or recruitment, are farmed out to specialist contractors. Similarly, firms must be able to acquire new capacities at short notice. The secret of a firm's success lies in its ability to deploy resources only when they are needed. As Rupert Murdoch put it, 'Big will not win anymore. Fast will beat big'.

The growth of outsourcing and specialisation among firms has fundamentally changed the way firms operate. The boundaries between firms have become much looser. Success is no longer ensured by effective line management alone. It now depends on the ability of executives to maintain a web of links with key service providers outside their own firm.

These changes have had an enormous impact not only on the performance of companies, but on the working lives of millions of people. As firms have hived off their peripheral activities and moved to a less hierarchical structure, they have shed a large number of employees in junior and middle-management positions. Quite apart from the effects on unemployment, this move has severed the company career ladders that helped provide income mobility and access to opportunity for many during the post-war period.

The disappearance of many junior management positions has not only removed the stepping stones from entry-level to higher waged jobs. It has exacerbated the polarisation of the job market caused by the shift to a service economy and by technological change. The gap between the skills and qualifications needed to perform in low level positions and those needed to move into higher wage jobs has drastically increased. As a result, it has become harder than it was 30 years ago to move up the ranks into a family-supporting job.

Furthermore, corporate restructuring has gone hand-in-hand with a loosening of the relationship between employers and employees. As part of the trend towards flexible organisation, businesses have not only increased their use of outside firms, but also of temporary workers. Over the past decade, the number of temporary workers has increased more than four-fold in the US and by similar margins in the UK. These employees now represent almost 10 per cent of the total workforce.⁷ These short-term workers form the lynchpin of flexible production or service operations, allowing firms to deploy manpower only when and where required without forcing them to maintain a given capacity when demand shifts or to underwrite the costs of benefits, such as pensions, that are associated with permanent employment. While some temporary jobs are of high quality and can lead to stable work, this shift away from permanent employment has in many cases acted to further weaken career ladders and increase income instability.

Firms have also proven themselves ever more ready to shed staff, whether permanent or temporary, and to re-tool the mix of skills within their workforce as their labour and skill demands change. As a result, it has become harder for those who are self-sufficient to remain so. For all workers, the assumption that a sustained period of employment will automatically bring with it the benefits, job security and increased wages associated with seniority holds less and less.

The findings of numerous academic studies on both sides of the Atlantic suggest that the effect of these changes on income mobility and access to opportunity has been dramatic. Recent analysis has found that income mobility has dropped off substantially since 1976.⁸ Other UK research has revealed that the vast majority of people who find low-wage work do not progress into better jobs from one year to the next,⁹ and that only 20 per cent of people in Britain in the lowest income categories move out of low-wage work permanently.¹⁰ All of this confirms the findings of multiple US studies, which show that up to ten years following the termination of their last benefit claim, the average former welfare recipient in full-time employment enjoys a real annual rise in pay of a derisory 1-1.5 per cent a year.¹¹

Even when people secure a well-paid job, they are finding it increasingly difficult to keep. Research in the US and UK suggests that men in particular are holding their jobs for shorter periods than before and losing them more frequently.¹² Moreover, workers are now significantly more likely than in the 1970s to suffer large drops in wages. This is particularly true of workers in white-collar jobs, precisely the ones that now dominate the economy.¹³ A study of wage instability among British men has found that, since 1976, there has been a 30 per cent rise in the numbers of workers who suffer an income drop of over 10 per cent while in full-time employment.¹⁴

In short, while the country has become more prosperous and the general standard of living has risen over the past 30 years, there has been a price to pay for this progress. The labour market is less equal, more dynamic and offers fewer opportunities to the low-skilled to earn higher wages than it used to. This transformation has created a swell of disadvantage that has swamped the welfare state's ability to treat the symptoms, or to attack the causes of this pattern of impoverishment.

The post-industrial economy and the welfare state

The welfare state has struggled to cope with the challenges of economic change. Despite a doubling in real terms of the amounts spent on social security since the mid-1970s, the welfare system has been unable to stem the rising tide of disadvantage.¹⁵ The root cause of this problem is clear: the system has failed to get people permanently off benefit and into sustained, living-wage employment. It has failed to generate true self-sufficiency among former welfare recipients. This failure, has not come through want of effort. Successive governments have tried to cajole welfare recipients back into work with a mixture of financial incentives, training and job-readiness programmes and straight-forward coercion. These programmes have displayed varying degrees of effectiveness, but all have failed to tackle the central problems of the new labour market.

The story is evident from official statistics. Even when people find work through the welfare system, it rarely pays anything approaching a living wage. For instance, according to the Department of Social Security study, *Understanding the Impact of the Jobseekers' Allowance*, the average JSA leaver made less than £4 an hour in 1997.¹⁶ Furthermore, many of those who find work seem unable to sustain it. Roughly 30 per cent of those finding work across both the major New Deals and through the Jobseekers' Allowance process lose their jobs within 30 weeks of getting it.¹⁷

The welfare-to-work system seems unable to provide any effective help to those who have dropped out of the labour market completely, the 'inactive'. Older men and inhabitants of high-unemployment inner-city areas are often simply written off as unemployable and shuffled on to a variety of long-term benefits that leave them living at a subsistence level, permanently dependent on the state. The fact that expenditure on Incapacity Benefit has more than trebled, and the number of recipients has increased by over 100 per cent since 1979, is a testament not to failing public health, but rather to the inability of the welfare state to provide the poorest in society with a ladder out of their predicament.

The failure of welfare-to-work schemes to have an impact on levels of poverty is a result not of poor programme design, but rather of a fundamental mismatch between the institutions of the welfare-to-work system and the structure of the 'new' economy.

While the economy has undergone profound change in the past 30 years, the basic design of the welfare-to-work system, cosmetic changes aside, has altered little. The only significant difference is that the Job Centre has now taken on the role of benefit policeman. Although the quality of service and the supports offered to jobseekers to help them move into employment has improved over the past few years, the system remains based around local labour exchanges that offer a generic, high-volume matching service to all firms. They are manned by staff with little knowledge of the demands of the private sector, whose role is to monitor welfare recipient activity to prevent benefit fraud, and in most cases to ensure that people take jobs as quickly as possible, regardless of their quality.

The system is not structured to cultivate long-term relationships with individual employers. Despite the emphasis in the new economy on skills, the current system maintains a fundamental division between the welfare-to-work and vocational training institutions. It has little institutional capacity to interact with welfare recipients once they leave benefits, to protect them against the effects of employment instability or to help them gain advancement. In fact, as the experience of the New Deal shows, it cannot even track them.

The welfare-to-work system has ossified as its design and operation have been driven by the needs of the programme administrators and providers rather than by those of its customers, the disadvantaged and the employers. For decades, government after government has chosen to shape the welfare-to-work system in ways that cater for internal government priorities and easier administration, rather than in ways that reflect the evolving contours of the economy. As companies have become less hierarchical, the welfare state which is meant to interact with them has remained top-down. While the lines between firms have become blurred, the boundaries between the welfare-to-work system, the vocational training system and firms have remained rigid. Employers have been kept on the periphery of decisions on labour market services, while training and employment have been kept distinct, controlled by two different government bureaucracies and underpinned by separate funding mechanisms.

Despite the introduction of more progressive welfare-to-work programmes recently, the underlying system has remained primarily a

machine for policing benefits and getting people off of public assistance as quickly as possible, rather than for supporting people in the labour market and helping to create access to opportunity. Similarly, the content of most training courses is determined by what curricula have already been developed and what the training providers can easily teach, rather than by what skills companies need. Few training institutions even have links with actual employers, and even fewer actively canvass their opinions.

Thinking the unthinkable: extending the policy debate

This failure of institutional design is of enormous importance in defining the options that government faces in attacking disadvantage within our society.

The current government has embraced a two-fold approach to fighting the growth of poverty: creating welfare-to-work programmes to move people into employment and establishing generous tax credits to 'make work pay'. Underlying this policy regime is the idea that work is the crucial ingredient in any anti-poverty strategy, not only because of the increased income it can generate, but also because of the sense of responsibility and self-sufficiency it can instill.

These policies aim to generate self-sufficiency to allow even the most disadvantaged to take control of their own lives and develop their potential to the full. But these ambitions will never be achieved if the welfare-to-work system cannot effectively move the disadvantaged to sustainable living-wage employment. Unless the system is made more effective, policy will only ever be able to exchange dependency on unemployment benefits for dependency on benefits for the working poor.

However, there is an alternative. This paper argues that the effectiveness of policy can be transformed if the structure of the welfare-to-work system is overhauled to more closely reflect the new economic realities. It is possible to align the institutions of the welfare-to-work system with the needs of employers and the disadvantaged. This new approach can provide better jobs for the low-skilled and more effective workers for the private sector. It allows policymakers to address the causes of poverty, not just its symptoms.

The paper will consider the lessons of a number of ground-break-

ing programmes that have sought to offer welfare recipients a path to self-sufficiency. Chapter two will analyse common trends among the different programmes and draw lessons about what features a welfare-to-work system based on fostering self-sufficiency would need to be viable. Chapter three will put forward a vision of what such a welfare-to-work system might look like, how it would work and what the state's role would be in it, while chapter four will set out a potential policy framework that could form the basis for realising that vision.

2. Programmes that get people into better jobs: analysing the lessons

Over the past decade, a number of innovative programmes have sprung up, especially in the US, which seek to address the worst effects of labour market change by adapting the mechanisms of welfare-to-work to the needs of the post-industrial economy. The experience of these programmes provides important clues as to how the welfare system would need to evolve to be able to effectively promote self-sufficiency. Almost 40 such initiatives have been examined as part of the research for this paper. This chapter focuses on the lessons that these programmes can offer.

The basic structure of the programmes

Traditionally, programmes have maintained an arm's length relationship with employers. Even in the New Deal, business involvement is limited to the input of a few representative firms which sit on steering committees that often command little influence. In contrast, the programmes discussed in this chapter place businesses at the heart of their activities. Programmes build their services to cater to specific companies, and often involve them directly in design and implementation. They engage firms not merely as anonymous entities, or as representatives of the private sector, but as customers of and participants in the welfare-to-work process.

The initiatives all follow one of two broad strategies for getting the disadvantaged into better paid work.

- *Demand-led programmes* aim to place the unemployed and disadvantaged directly into higher wage employment. As the name indicates, the programmes are shaped by the actual needs of individual employers.

- *Career-ladder programmes* create specific pathways from low-paying jobs into better remunerated ones, often with different employers.

Career-ladder programmes seek to re-establish direct links between low-skill and high-skill jobs, both within companies and between them. The basic principle is simple: employees who prove themselves competent and conscientious in the low-wage jobs are put forward for promotion into higher wage ones, usually at another firm. All the programme does is to provide a framework to link the two employers. The higher wage employer gets people it knows to be good workers, and the promise of promotion induces greater work effort among the low wage firm's workforce and reduces staff turnover, a major cost for low-skill service sector employers.

Career-ladder schemes are rare, and have met with only mixed success where they have been piloted. They have been unable to move significant numbers of unemployed people into better jobs. Moreover, they have often found it difficult to maintain company involvement, not least because of the problem of aligning the interests of companies from low- and high-skill sectors. The largest attempt in recent years to create a job ladder programme collapsed due to lack of private sector participation (see the Jobsplus case study in the appendix for more information).

In contrast, demand-led programmes have scored a string of notable successes in engaging companies and in moving the disadvantaged into living-wage jobs in large numbers. These programmes have consistently out-performed traditional welfare-to-work programmes by large margins in rigorous trials. The Wildcat Service Corporation in New York has moved over 80 per cent of people starting its Private Industry Partnership programme into jobs paying a starting salary of over \$25,000, despite the fact that the average participant has been on welfare for more than four years and has the reading skills of a fourteen-year-old. Over 90 per cent of those placed were in employment two years later. The Centre for Employment Training (CET) programme has outclassed all traditional programmes in two separate US government studies, placing 75 per cent of its participants in work, despite the fact that over half of those in its programmes have no educational qualifications whatsoever.

ever, and a substantial minority speak little English. Against this, the New Deal has struggled to place even 50 per cent of a far less disadvantaged client group into lower paid work.

Demand-led welfare-to-work programmes are based on one key idea: that companies will only be prepared to embrace welfare-to-work recipients if it is in their commercial interest to do so. A workforce development system must be built around the needs of employers if it is to succeed. The post-industrial economy is highly skills intensive, and the skills needs of individual companies and sectors are increasingly specific. In this environment, companies often find it hard to find people with the exact skills sets they need. These programmes seek to make welfare recipients attractive employees by giving participants customised training that enables them to exactly fulfil the job requirements of individual positions. In short, these programmes create opportunities for the disadvantaged by aligning their interests with those of potential employers.

Case Study: Wildcat Service Corporation Private Industry Partnership (PIP), New York

The PIP initiative was established in 1995 by the Wildcat Service Corporation, a well-established New York intermediary organisation, to place low-income individuals into living-wage jobs in the financial services industry. Participants undergo between sixteen and 32 weeks of training that is highly customised to the needs of specific positions at specific employers. The training schedule alternates between weeks of classroom training and weeks of actual paid work. At the completion of training, participants who are deemed ready are interviewed by an employer. Those who meet the firm's standards are employed by the company on a sixteen-week trial basis. At the end of this period, companies make their final hiring decision. The PIP programme arguably remains the most successful welfare-to-work programme in the US. Less than 10 per cent of its participants drop out during training, and almost 90 per cent find employment paying an average income at placement of \$28,000. Even more impressively, over 90 per cent of those placed are still in work two years later. Much of this success is down to the effort Wildcat has made to develop a service-orientated culture that is highly responsive to the needs of its corporate customers.

The programmes must almost be built backwards. They must start by understanding the precise requirements and standards of the firm and use these to design the programme of training and work preparation for the individual. Consequently, training is built around concrete job vacancies. As a result, in most of the programmes, if the individual completes the training to the company's satisfaction, they will be employed in the position they trained for. Participants seem far more likely to stay the course and complete a programme if there is an actual job, not just a vague promise of employment, at the end of it.

This requires an intimate, on-going relationship between the company and the training provider. The provider must offer a high-quality, individualised service to firms to sustain quality, deal with any problems and maintain their confidence. Indeed, the quality of their service implementation is just as important as the design of the services they offer.

Demand-led programmes come in three main forms:

- *Customised training programmes* These offer welfare recipients training that is highly customised to prepare welfare recipients for specific jobs at specific firms. These programmes are tightly focused on placing welfare recipients into work and offer few other services to firms.
- *Comprehensive service programmes* These sectorally-based programmes offer customised training for welfare recipients as just one element of a range of services that often includes continuing training for incumbent workers, management and technical consultancy and export assistance.
- *Stabilisation strategies* These programmes seek to provide higher wages to both entrants and incumbent workers in a sector by improving the quality and pay of jobs in sectors characterised by sporadic and unpredictable work hours. These programmes 'stabilise' the jobs, restructuring them to guarantee full-time hours and some form of minimum earnings. This form of programme can only be undertaken in certain specialised markets, and is consequently rare. The best known example is Co-operative Health Care Associates in New York (see the Case Study Appendix for further details).

Case Study: Garment Industry Development Corporation (GIDC), New York

The GIDC was founded in 1985 by a partnership of New York's leading apparel firms and the industry's major union to help arrest the sector's precipitous decline in the face of foreign competition. The initiative offers two main types of service: training and referral systems to ensure that firms have access to a high-skill workforce, and workers to a living wage; and business support services. The GIDC offers an eight-week intensive training course, 'Super Sewers', to help displaced workers increase their skills and quickly find new employment. The initiative also offers a range of higher-level customised training programmes for incumbent workers, both at a central training centre and at the work site. Over 600 workers and unemployed pass through these programmes every year. To complement this system, the initiative also runs a centralised referral and matching system, so that unemployed sewers can be effectively matched with new job openings, which pay an average of well over \$20,000 a year.

The GIDC also offers firms a range of support services to improve competitive performance. The initiative runs an export and technology centre, which helps participating firms upgrade their production systems, improve productivity and sell their goods on the world market. It also runs a sourcing centre to support member firms procurement needs and offers businesses on-site needs assessments to help them identify how they can most effectively build their production capacity.

The distinctions between the varying types of demand-led strategy are not merely a matter of the scope of the services offered. They also reflect differences in the way the programmes engage with the companies that they serve. The companies involved with comprehensive service programmes interact with each other, as well as with the central organisation that provides the services. Most of the comprehensive initiatives include in their structure a sectoral employer organisation to which all participating companies subscribe. These organisations provide a forum for the collective consideration of issues effecting the programme, and the industry as a whole. In this model, firms are not just customers of the initiative, but integral members of it.

The relationship between companies and welfare initiatives is strong among customised training initiatives, but it is of a different sort. The participating firms have little contact with each other and have a predominantly customer relationship with the programme itself. This distinction is important for understanding how the different types of programmes affect the companies they work with.

Trends among the programmes

Analysis of the programmes in this study has revealed four broad trends among them that help explain how they work, and why they are successful.

1. The structure and success of each programme and the services it offers vary according to the structure of the market in which participating firms operate.

The large variations between the programmes studied in this paper reflect the distinct challenges that different markets, with different sets of competitive conditions, pose to sustaining low-skilled people in living-wage employment. Market conditions will determine which type of programme is best suited to serving the needs of companies in that sector.

Three major market elements appear to determine what kind of initiative will offer the best fit with the sector.

- *The structure of the product market in the sector? How competitive is the sector? Does the main competition to participating firms come from local rivals, or from those outside the region or country? Do the firms compete mainly on the basis of the price or the quality of their products?*
- *The structure of the sector's labour market? How heavily unionised is the sector? How big is the skills gap between low- and higher-wage jobs in the firm or sector?*
- *The size of the firms in the sector? Is the sector composed of lots of small firms, or monopolised by a few big ones?*

It is too readily assumed that the state of the labour market is the determinant of the structure of a welfare-to-work system. It is true that as skills shortages deepen, employers will be more prepared to

hire the unemployed and disadvantaged. However, most of the comprehensive demand-led programmes reviewed for this paper were established during periods of recession in their sectors and many of them have been set up in localities with above average levels of unemployment. Research suggests rather that it is the dynamics of the product market that are of the greatest importance.

The nature of competition in the market - what kind of product is being sold, who a firm's primary competitors are and what kind of market power they have - all drive a firm's choice of competitive strategy. At its crudest, these factors determine whether the company chooses to compete primarily on price or on quality, and therefore what companies' demand for skills is. Companies or sectors competing primarily at the low price/low quality end of the spectrum will be less interested either in a skilled workforce or in paying a living wage. The extent to which product or service quality matters to a firm's competitive strategy will determine their demand for skills and their interest in a demand-led approach

The origin of competition in the market will also determine whether companies are prepared to co-operate to address sector-wide skills problems. Companies in a sector facing annihilation by foreign competitors will be more willing to work together than those enjoying healthy profits and facing competition from local firms. For this reason, demand-led programmes that follow a comprehensive service model, which emphasises co-operation, tend to be found almost exclusively in markets characterised by aggressive foreign competition, such as the metalworking sector of the American Rustbelt. In these sectors, the external threat to companies is sufficient to overcome their traditional reluctance to co-operate.

The skill level that a firm or a sector requires is also important. As the skill requirements of a job become higher, they also tend to become more specific to individual firms. In these very high skill niches, customised training programmes are more common. The level of unionisation in a sector also plays a part: comprehensive demand-led programmes often come about as the result of collective bargaining in a sector.

Finally, the size of firms in a sector is another key factor in determining the shape of a programme. The smaller and less vertically integrated companies are, the more likely it is that they will have to

co-operate with others. Small firms will not have enough vacancies to make the sort of single-firm training offered by customised training programmes viable. While there is no hard-and-fast rule, it seems that sectors composed mainly of smaller firms are more likely to support comprehensive service programmes than sectors that are comprised mainly of larger firms.

These findings are important as they suggest that a welfare-to-work system based on such programmes would be highly heterogeneous, with its structure varying according to the sector it is serving.

2. The broader the range of services offered by a programme, the greater its potential impact.

The evidence suggests that comprehensive service demand-led programmes have a greater impact than narrower customised training programmes both in terms of the numbers of participants sustained in living-wage jobs and the effects on companies' bottom lines.

On the supply side, this in part reflects the fact that the programmes cater to a wider clientele than just the unemployed. Comprehensive service programmes provide training to existing workers as well as those out of work. More importantly, however, comprehensive programmes offer a fundamentally different model of employment support to programme participants from that offered by narrower demand-led programmes, or traditional welfare-to-work systems.

While current welfare-to-work programmes focus their activities exclusively on placing the unemployed into work, comprehensive service programmes aim not only to help the unemployed into living-wage jobs, but also to help them to sustain higher wage employment over the long-term. They see placement in a job as only a first step. They are less concerned with a person's employment status than with understanding what help they need to attain and retain a better paid job. As well as customised training for the unemployed, they offer workers regular firm- and sector-specific training to help them update their skills sets. These programmes see welfare-to-work as only one element of a broader lifelong learning system that is designed to ensure that lower skilled people have the tools and opportunities to sustain self-sufficiency.

Case Study: San Francisco Hotels Partnership (SFHP),
San Francisco

The SFHP was set up in 1994 as part of a collective bargaining agreement between San Francisco's twelve largest hotels and the two main hotel workers' unions, covering over 5,000 workers. The purpose of the initiative was to increase the hotels' share of the national market while simultaneously improving working conditions. The centre-piece of the partnership are sixteen joint labour/management problem-solving teams that have been used to overhaul the hotels' workplace efficiency and significantly boost productivity. As part of this overhaul, a range of customised training systems have been introduced. The partnership has established a welfare-to-work programme with a local non-profit organisation that offers recipients training for entry-level positions and offers those who graduate guaranteed jobs at an average wage of \$12 an hour. In addition, a number of skills upgrade and career ladder programmes have been established to offer existing workers new skills to enable them to move into better paid jobs. Through these and other worker retraining programmes, the SFHP has given upgrade training to almost 2,000 workers, and helped to substantially increase the number of workers within the industry earning a living wage.

On the demand-side of the market, the story is similar. There is little doubt that customised training demand-led programmes can help strengthen companies' profitability. The Wildcat Service Corporation, for example, estimates that its customised training programmes saved one employer almost \$1 million over a five-year period, while another company saved over \$200,000 in placement fees in its first year of hiring people from the Wildcat programme. However, Wildcat's programme had little effect on the overall competitive performance of the sector as a whole.

The story is very different with some of the larger comprehensive service models. Employment among the firms in the Wisconsin metalworking sector participating in the WRTP (see case study below) rose by 16 per cent in 1998, while employment in the rest of the sector in the region grew by only 3 per cent.¹⁸ Similarly, employment in the segment of the New York garment trade covered by the GIDC (see case study above) grew by over 2,000 in the period 1997-98 while the

sector continued to shrink both across the rest of New York state and the USA as a whole.

This difference in impact on the demand-side of the labour market reflects differing aims among demand-led programmes. Customised training programmes seek to provide incentives for business participation by helping companies address their skills needs and by improving the cost-efficiency of their human resources operations. Comprehensive programmes seek to go much further. These programmes aim to re-engineer the competitive strategy of firms in a sector from one based on cost to one based on quality. These types of initiative are found in sectors where customers place great value on product or service quality, as well as price, and where firms face intense competition from producers from outside the region who have a decisive price advantage. In these industries, firms can increase their profitability – and help their chances of survival - by moving from trying to do it cheapest to trying to do it best.

Unlike narrower demand-led systems, these programmes seek not just to improve the efficiency of current company strategies, but to change them, to alter the way the demand-side works. These sectoral programmes seek a dynamic relationship with firms, where they respond to their needs, but also influence their future requirements by helping them to adapt their competitive strategy.

This gets us to the heart of why demand-led programmes with a wider focus tend to have more impact on both companies and the disadvantaged. These programmes integrate welfare-to-work and lifelong learning into a unified framework for improving the economic performance of a sector as a whole. Developing the workforce is only one element of the overall strategy to upgrade the quality of the production or service delivery process and target new markets. These programmes seek to drive a change in company strategy by offering competitiveness-enhancing services and by increasing the supply of skilled workers. The change in strategy to focus on high-quality, high skilled production increases companies' demand for higher skill workers. By this virtuous circle, these programmes can cause the supply of living wage jobs to grow.

Case Study: Wisconsin Regional Training Partnership (WRTP), Milwaukee

Covering over 40 firms and 60,000 workers, the WRTP is the largest sectoral project in the US. Set up in 1992 as part of a business/labour initiative to address the declining competitiveness of the metalworking industry in southern Wisconsin, the WRTP's activities focus on three main areas: training incumbent workers to adapt to new working methods and new technologies; training new workers to ensure future reserves of skills; and promoting industry modernisation to improve productivity and product quality. The partnership is built on a collective agreement by firms to invest a minimum percentage of their turnover into updating worker skills.

The structure of the WRTP is more devolved than similar initiatives: training at each location is run by a site-specific committee, but monitored and supported by the central organisation. Training takes place primarily through workplace training centres run at each business site. The WRTP's central organisation helps employers develop specific curricula and operates joint centres for smaller employers. In 1998-99, almost 3,000 incumbent workers went through this training, with many others receiving other on-site instruction. WRTP members spent an average of almost \$700 per worker on training.

Welfare-to-work and new worker training is provided both directly by firm training centres through apprenticeships, and through alliances with non-profit providers like the Milwaukee Jobs Initiative. Welfare recipients entering work through these channels have consistently averaged starting wages of over \$11 an hour. These organisations provide welfare recipients customised training to prepare them for the more advanced vocational training they receive at the WRTP training centres. In all cases, new employees are trained alongside incumbent workers.

The modernisation programme uses the WRTP's site-specific structures to help enact workplace reforms and introduce firms to new technologies. Almost 90 per cent of participating firms have set up work re-organisation committees to oversee the restructuring of the workplace to support higher skill, higher quality production, and over 75 per cent of participating firms have implemented large-scale reforms to their production processes to increase product quality.

3. Demand-led programmes can only have a transformative impact on a sector if underpinned by institutions that encourage co-operation between companies.

Revamping the competitive performance of a sector requires considerable co-operation between participating firms. Comprehensive service initiatives require companies to spend money to address collective challenges facing their sector as a whole. If a large majority of firms within a sector decline to participate, hoping to free-ride on the back of others' investments, these initiatives will collapse. No one will be willing to pay for training and other services knowing that their investment will simply be exploited by others.

This problem has cropped up repeatedly in recent history. British firms have traditionally been reluctant to co-operate to address collective problems. For instance, firms have often been unwilling to invest in the skills of their own staff for fear that the newly trained employees will be poached by competitors. The inability of British companies to act together to address collective problems such as chronic skills shortages or under-investment in research and development is one of the main causes of the UK's lack of competitiveness for the majority of the post-war period.

This may explain why comprehensive programmes tend to be found in sectors under extreme pressure from foreign competitors. It is only in industries whose survival hangs in the balance that firms have had sufficient incentives to overcome their reticence about co-operation.

To have the greatest impact on a sector as a whole, then, demand-led programmes need to be underpinned by institutions that encourage firms to co-operate and impose costs on them if they fail to do so.

Such institutions can take a number of forms. In the case of the GIDC or the SFHP (see the case studies above), a strong industry association has helped to provide the basis for collective action among firms. In both cases, the employers' association has worked with unions to set up a sectoral intermediary organisation to administer the demand-led programme. The unions' leverage across companies has also been useful in facilitating co-operation. In the case of a programme currently being established in Edinburgh, the institutions set up by a consortium of companies for running a business park have provided a framework for co-operation between firms. Large

firms can also use their clout among their smaller suppliers to induce collective action: in the case of the Automotive Sector Skills Alliance (ASSA) in Sunderland, Nissan have used their leverage and market dominance in the local economy to bring other firms, in particular their suppliers, to the table and to persuade them to invest to improve the performance of the sector as a whole.

These institutions will be crucial to any attempt to move from isolated demand-led programmes in higher skill sectors to a welfare-to-work system that encompasses enough firms to offer most people a real opportunity to earn a living wage. Customised training programmes, despite their many strengths, are not very effective at engaging smaller firms or galvanising companies for concerted action. Institutions that provide the basis for co-operation between firms must form one of the basic building blocks of the welfare-to-work system if it is ever to get demand-led programmes to penetrate areas of the economy dominated by smaller firms.

4. These programmes are a result of private action, not public policy. They cannot be legislated into being.

The programmes considered here came into being through the efforts of a community-based organisation (CBO), union or employer association to get the relevant stakeholders around a table. With only a couple of exceptions, none of the initiatives considered for this paper arose as a result of a government initiative.

Because these programmes rely for their success on the strength of relationships both between companies and service providers and among companies themselves, they cannot simply be legislated into existence. They must grow organically.

Furthermore, several of the American programmes, such as the GIDC and San Francisco Hotel Partnership, have refused some government funding for their programmes, arguing that the restrictions placed on it prevented them from effectively responding to the needs of the businesses they were serving. Even where government financial support is accepted, it has normally been on the basis of pure outcome measures: the programmes face few restrictions and receive funding that is linked solely to how effective they are at finding people work.

Government's only involvement in the establishment of many of

these organisations has been through the provision of seed money and, in a handful of cases, the holding of meetings to help initially bring together stakeholders. Especially where co-operation between rival firms was required, companies would often be unwilling to make the first move, particularly when it came to offering an initiative financial support. Government money was used in a number of initiatives to help break the 'first mover' impasse.

The implication is that government policy to encourage these types of programme must focus on creating incentives for firms to co-operate and on building a funding and regulatory environment that is flexible and supportive of private and non-profit innovation in the realm of welfare-to-work and training.

The lessons of the programmes for designing a new welfare-to-work system

The trends among the programmes reviewed here seem to suggest a number of lessons for us in trying to put together a welfare-to-work system that will move people into living wage work:

- *Any system must be business-focused.* A system must pay far more attention to the needs of the demand-side than the current system. Provision must be built around specific jobs in specific firms and sectors, rather than around the structure of government agencies and service providers as is currently the case.
- *The system must allow flexibility, rather than following a 'one size fits all' approach.* Effective welfare-to-work systems will take different forms in different markets. The system must support this heterogeneity.
- *Initiatives established in a sector should look to maximise the breadth of services offered.* This maximises the economic impact of the initiatives and their appeal to smaller firms.
- *The system must be underpinned by effective collective institutions at the sectoral level.* The system will only be able to meet its objectives if it is underpinned by institutions that allow for collective action. These institutions should be established at a sectoral level: the evidence suggests that those which try to combine divergent sectors may fail. Co-operative institutions are especially important where a market is dominated by small firms.

- *Most importantly of all, the welfare-to-work system should be delivered as part of a broader set of measures to increase the competitiveness of sectors of the economy. Within this framework, delivery of welfare-to-work should be fused wherever possible with delivery of lifelong learning.*
- *A sustainable system will rely on a new form of public/private partnership. The government will not be able simply to mandate the establishment of a new system. Successful provision will depend on new forms of partnership between private actors and public agencies.*

The next chapter will sketch out what a system built around these lessons might look like, how it would work and what its implications would be for the relationship between the state, the private sector and the citizen.

3. The shape of the demand-led welfare-to-work system

Clearly, the institutional basis of the welfare-to-work system must be radically overhauled if it is to open up access to living-wage jobs. Britain must move from a model of welfare-to-work and lifelong learning provision built around the needs of service providers to one built around firms. Most importantly of all, the system will have to be anchored in most sectors in collective employer institutions to ensure that the system reaches scale and maintains stability.

A system of the kind outlined in this chapter would deliver welfare and training services as part of a broader set of activities aimed at raising the demand for skills and the performance of the economy as a whole. By integrating welfare-to-work into this wider framework, the system would catalyse an increase in the number of living-wage jobs in the economy and begin to challenge the underlying economics of the low-pay/no-pay cycle.

Moving to a living wage welfare state will, however, require more than institutional change. It will also need to be underpinned by deep-seated shifts in the role welfare and training play in the labour market and in the flow of a normal career.

The basic structure of the new system

The building blocks of a demand-led system would be very different from those of the current welfare and lifelong learning systems. The new system would deliver unified welfare and training services through sector-level organisations that are overseen by the companies they are serving.

The new system would have two major components:

Table 1. Contrasts between the current and the proposed welfare-to-work systems

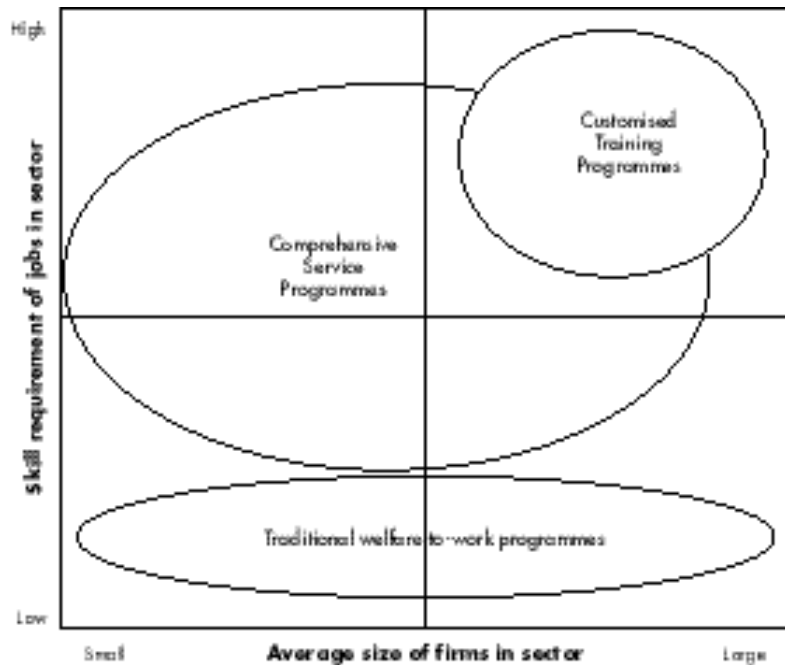
Current system	New system
Built around needs of government agencies and service providers; provider-driven	Built around needs of businesses and welfare recipients; employer-driven
Homogeneous: standardised programme designs to cover all sectors	Heterogeneous: programmes design varies from sector to sector; adapts to meet particular needs of firms
Offers generic services	Offers services customised to needs of individual firms and/or sectors
Offers services to individuals based on their employment status	Offers services to individuals based on need, regardless of employment status
Focused on moving recipient into employment	Focused on moving recipient into self-sufficiency
Programme involvement ends when recipient has found job	Programme involvement only ends when recipient finds and sustains living wage job; all may also re-enter programme as needs dictate
Welfare system as a safety net of last resort	Welfare system used as part of flow of normal career
State regulates service content; welfare state as line-managed bureaucracy	State regulates programme outcomes; welfare state as network, with state as hub
Welfare-to-work and lifelong learning systems separate	Welfare-to-work and lifelong learning systems fused, delivered through a single set of employer-focused institutions
Welfare-to-work system only for the unemployed	Universal system – both unemployed and those with jobs move through same system

- *A system core provided by the state:* This would provide a single point of entry into the welfare-to-work system. It would process people, pool information about the various services available to them and direct individuals through the system to the demand-led activities most appropriate for them. The core would oversee the standard of service delivery and monitor the fulfilment of contracts, and would provide a strategic overview of the system to ensure that the right spread of services to meet the needs of employers and welfare recipients exists in each locality
- *The delivery system provided by demand-led initiatives at sector or firm level:* This would be built around a system of employer organisations that would co-ordinate services for each sector. The actual design and structure of welfare-to-work and lifelong learning services in each sector would be determined by the needs of participating firms.

Sectoral employer-led bodies in each region or locality would provide a flexible platform from which welfare-to-work programmes that best match the needs of firms in those sectors can grow. These employer organisations would not be involved in service provision themselves. Services would be supplied by training organisations and other bodies who would work directly with participating firms, and service contracts would be held directly with the system core. The employer organisations' purpose would be to provide a mechanism that catalyses co-ordination and co-operation between firms in a sector. They would also offer government and potential service providers a single point of contact through which they can contact individual employers and engage with a sector as a whole.

The structure and content of services would vary among programmes. In a number of the programmes studied for this paper - including the SFHP and the GIDC (see case studies in chapter two) - the employer organisation, in collaboration with the unions, established a new intermediary organisation expressly to deliver the demand-led programme for their sector. In other cases, companies went to pre-existing training providers or CBOs. The type of programme that arises in each sector would depend on the nature of competition and factors such as the size of firms, as outlined in the previous chapter.

Diagram 1. The type of welfare-to-work programme that emerges in a sector will depend mainly on its skill requirements and how large participating companies are on average



A patchwork of programmes would emerge, with demand-led programmes of different forms covering the majority of the economy. Over time, coverage could rise as the demand-led programmes help sectors to shift focus onto high-quality production.

In general, higher skill sectors dominated by larger firms would spawn mainly customised training programmes, although the precise type of programmes that emerge would depend on the nature of the competitive threat that participating companies face. For instance, in the IT sector, where most competition tends to come from off-shoots of large firms based in the same region, we would be more likely to see CET or Wildcat-style programmes. By contrast, in the automotive sector or other manufacturing industries, foreign competition and the need for sector-wide improvements in competi-

tiveness would probably lead towards the development of more comprehensive service programmes, as has been the case with ASSA in Sunderland (see Case Studies Appendix).

Sectors dominated by smaller firms would tend to give rise to more comprehensive programmes. It is in these sectors where the need for collective action to provide competitiveness-enhancing services and support training is greatest. These firms have neither the funds nor the scale to support such activities on their own. Companies with less than 250 workers account for the bulk of UK employment and the vast majority of firms.¹⁹ Consequently, it is likely that comprehensive programmes would come to predominate, covering perhaps as much as half of the economy.

The scale of these new co-ordinating institutions should follow the natural size of labour market areas, rather than existing territorial boundaries of different administrative units. The organisations delivering services, on which the programmes would be based, would be heavily localised, but the co-ordination of sectoral strategies might take place at city level or above. This co-ordination would be an important challenge for regional policy.

Many sectors might witness a variety of programmes growing simultaneously, which could be advantageous, especially in helping the system to open up access to good jobs with smaller firms that it has hitherto had great difficulty in unlocking. These programmes would be led and shaped by a range of actors, including firms, unions and community based organisations.

Traditional welfare-to-work systems would continue to serve the lower-skilled sectors that provide around a quarter of the country's employment. However, as will be outlined below, where these programmes were offered, they would form only the first step in a process to move those in dead-end employment into sectoral training and living-wage work.

The relationship between the individual and the welfare state: a new model of labour market citizenship

Moving people into sustained living-wage employment would entail not only getting them into a job, but the on-going provision of services to help them develop the skills they need to maintain higher-

wage employment in a market where skills rapidly become obsolete. The system would have to continue to assist those at risk of falling into low-wage employment even when they have found work.

The system would have to blur the distinction between those in work and those without it. Its primary concern would be not with an individual's employment status but with what they need in order to maintain higher-wage work. By focusing on need, the new system would offer a universalist approach, in line with the original ideals of the welfare state.

In this context, the role of the welfare-to-work system in the working lives of most people would change radically. It would provide not only a safety net to be used only at the most desperate times of need, but also a pool of services that could be used as part of the normal flow of a successful career. A stint of retraining through the welfare-to-work system would form a normal step in many people's progression into better jobs. The system would offer a form of 'pit stop' service, to help people re-skill during their careers.

This model would require the system to develop new capabilities and the citizen to adopt a new outlook.

The welfare and training system would have to interact with those in work, to inform them of new labour market opportunities and help them assess what training and experience they need to maintain and improve their income levels. Moreover, eligibility for benefits and welfare services would have to be extended to allow those who fulfil certain conditions to leave work and move onto benefits in order to go through a period of retraining paid for by the public purse.

For this approach to succeed, these changes would have to be mirrored by a shift in the way individuals perceive training and its role in their careers. Many remain wedded to the idea of the job-for-life and see training, especially if undertaken at their own expense or in their own time, as unhelpful.

People must become more strategic, and more entrepreneurial, in assessing what jobs to take, when to move on and when to seek retraining. One of the tasks of the new system would be to help foster this culture of lifelong learning by making the rewards of retraining, and the risks of not doing so, more transparent to individuals.

How would the new system work?

The new system would aim to provide a 'one stop shop' service both for the unemployed and those seeking retraining, and for companies looking for new staff, training for their existing workers or other competitiveness-enhancing services. As the landscape of service delivery becomes much more complicated, with a web of differing sector-level programmes replacing the current standardised approach, it would become essential that the system provides a single point of initial contact between customers and services if users of the system are not to be overwhelmed by its complexity. Firms would access services through the demand-led programmes themselves, while those seeking work or retraining would flow through a unified gateway provided by the system's core.

The state-run core of the system would provide the single point of contact for the unemployed and those seeking retraining. It would be based around the ONE programme that is currently being piloted. People would be able to access all government-related labour market services through a single point of entry that would be administered by the new 'working age agency', which is due to be created out of the amalgamation of the Employment Service and the Benefits Agency. Everyone would flow through the same gateway, regardless of what service they need and what their employment status is. The ONE service would then refer them to the services that best suit their needs and aspirations.

Upon entering the service, individuals would be assessed to determine their eligibility for benefit and the degree of support they would need to navigate the network of services offered by the welfare and training system. Most unemployed people and low income job-switchers would be allocated a case manager.

As is the case for many New Deal participants, the organisations actually delivering the demand-led training programmes could offer participants additional case management services. While government case managers' primary role would be to act as experts in the welfare system, a second tier of case managers would provide the expertise in specific sectoral labour markets. They would have an intimate knowledge of the needs of companies in their sector, and would help to ensure that individuals complete their training to the satisfaction of the companies involved and secure employment.

The ONE system would offer people four main pathways towards employment:

- *Immediate placement into work using labour exchange services* The 'working age agency' would continue to provide basic labour exchange services. Individuals would also have access to specialist labour exchanges run at sectoral level.
- *Direct placement into demand-led programmes* The majority of unemployed people, and job switchers seeking full-time training and/or support to enter higher-wage work, would go down this route. To prevent programmes only skimming off the best candidates, demand-led programmes would be expected to take all participants referred to them who met a few minimal criteria agreed in advance with the system core.
- *Placement into a traditional welfare-to-work programme* This path would be used mainly by those who want a job for which they already have most of the skills. For some, this would be a way of building up work experience before entering sectoral training.
- *Placement into specialist services for those with particular problems such as chronic substance abuse or very low skills* This path would be the rarest. Most specialist services would be provided in parallel with specialist labour-market focused services.

The new regime would seek to move people into one of these pathways as quickly as possible. At the moment, individuals must spend as much as two years out of work before they become eligible for full welfare-to-work activities to ensure that services are not claimed by those who would have eventually found work anyway. The new regime, however, would allocate people to activities based on what skills and experience they need to hold down a good job, not how long they have been on the dole.

The crucial difference between the new system and the existing one, however, would lie in what happens after placement. For those who went via the labour exchange or traditional welfare-to-work services into a lower wage job, this would form only the first step towards self-sufficiency. Whenever someone were to move through the system into lower-paid work, their case manager would put together a self-sufficiency plan and stay in touch with them to

How the system would work: a hypothetical case history

Mark left school in east London at eighteen with few qualifications. He found a series of odd jobs for his first few months in the labour market, but didn't hold any of them for long. After losing his third job, Mark decided to apply for Jobseekers' Allowance. When Mark put in his claim, he also went through a series of tests and interviews with a ONE Personal Adviser (PA) to determine his skills levels, and to work out what field he would like to go into. Mark decided that he wanted to find a job quickly rather than go into a period of training and entered the traditional welfare-to-work programme run by his local ONE office. Shortly afterwards, he found part-time work in the retail sector.

When he entered his new job, Mark's PA told him that because of his low income level, if he kept his job for six months he would be entitled to leave his job voluntarily and re-enter the welfare-to-work system, provided that he went straight into a demand-led training scheme that would lead him to higher wage work. Over the course of the intervening months, the PA stayed in touch with Mark, sending him information on new training programmes and the job opportunities they would open up. Eventually, Mark decided to leave work and go into a demand-led programme run with the local manufacturing sector. After six months training, carried out mostly at actual employer sites, Mark was taken on by one of the participating firms. Mark's PA remains in periodic contact to ensure that Mark is on track to sustain his wage level, and to plan future training that would help him progress.

ensure that they have the opportunity to move into a demand-led programme that would place them in higher-wage work as quickly as possible.

Taking a low-wage job might often form part of a strategy to give the jobseeker the level of experience they need to be able to move successfully into a sectoral training programme. While the jobseeker was in low-wage work, the case manager would continue to monitor their progress and would set up entry into a sectoral programme for them. Those who displayed a minimum commitment to work (for example, by remaining in unbroken employment for six months) would be allowed to voluntarily leave low-wage employment and re-

enter the welfare-to-work system as long as they went directly into a sectoral training programme.

On the employers' side, the delivery system – the demand-led programmes themselves – would offer companies a single point of contact in each sector for training and competitiveness-enhancing services. Furthermore, they would provide training and recruitment activities in a way that complemented other services aimed at bolstering overall competitiveness. For example, a company would be offered training for its workers to help them adjust to suggested process changes that the company arrived at with the help of the programme's technical advice service.

Funding the system

The proposed system would generate three main areas of extra cost over current arrangements.

- *The set up and maintenance costs of the core of the system* might require an increase in the numbers of case managers and other core staff. There would also be the one-off costs such as those associated with putting in place new computer systems or providing seed funding for some of the demand-led programmes.
- *The cost of additional training* the system would undoubtedly entail more unemployed people and existing workers going through full-time training.
- *The cost of additional cash benefits* the 'pit stop' model of retraining around which the system would be based would mean more people leaving work and relying on welfare payments to provide them with an income during a period of re-skilling.

In addition, the system would also be faced with the question of how it could hold publicly-funded demand-led programmes accountable while at the same time giving them enough flexibility to allow them to respond to the needs of their corporate clients.

However, while costs might increase, there would be compensating savings:

- If more people are placed into living-wage work, this should

reduce the cost of the welfare state over the long term.

- The system core might be able to defray some of its start-up costs through efficiency savings across government: channeling all entrants to welfare or training services through one co-ordinated gateway might reduce the need for separate training, welfare-to-work and benefits bureaucracies.
- Evidence from the US suggests that even though demand-led training is more effective than traditional skills-focused programmes, it is not more expensive. In fact, both Wildcat's and CET's programmes cost less per head than the average full-time training course provided by the New Deal.
- Much of the additional training would be paid for by companies or individuals. Firms would be expected to pay the lion's share for the upskilling of existing workers, and to finance the re-training of experienced workers whom they have poached from other firms or industries to meet their skills requirements.
- Higher paid individuals would be expected to shoulder some of the cost of increasing their own market value with retraining.

One of the key funding challenges that the new system would face is determining who should pay for training, and ensuring that those with low income can afford the training they need. A way of accomplishing this might be through a version of the Individual Learning Accounts (ILAs) that the government is currently piloting in several disadvantaged areas of the country. Every working-age adult could be given a government-held learning account that could be used to fund the training activities of their choice. People would be allowed to invest in their own ILA, tax-free.

The government would also contribute to ILAs. All those wishing to go into a sectoral training programme would be means-tested for benefits as part of the process of moving through the ONE gateway. The government would provide people with a lump sum, on a sliding scale depending on income and other needs, to fund their training programme. Those who had low or no income, faced barriers to work or had low skill levels would receive the maximum – enough to fully cover the cost of demand-led training – with those who had been in intermediate-wage work receiving less and those in high-wage work

receiving little. Extra funds would be available for those who needed ancillary services due, for instance, to learning difficulties.

Companies would be able to pay for their employees' training either directly, by making payments to demand-led training providers, or indirectly, by making tax-free contributions to their employees' ILAs.

The ILA framework could also provide a mechanism for regulating the quality of service provision. Payments to training providers could be based solely on outcomes. The provider would only get paid if the training led to a job. In the event that the trainee found employment, the sectoral initiative that trained them would receive a lump sum payment from their ILA, with the size of sum being linked to the wage level of the job. Further payments would follow if the individual retained their job for six months and then for a year. The size of the payments from the ILA would be determined by the needs of the programme participant. The more disadvantaged they were, and the greater their barriers to employment, the larger the outcome payments would be.

Supporting the additional cost of increased benefits payments presents a trickier problem. As was outlined above, the new system would require a different benefit regime to allow people to move more flexibly between work and training over the course of their career. That regime would need to achieve a fine balance. It would have to provide low-income workers with an incentive to undertake the training they need to lift themselves out of poverty, but avoid creating the perverse incentives that might arise if people were given the option of entering unemployment voluntarily.

One possible solution might be to establish an additional contributory component to certain benefits. As part of their National Insurance payment, people could pay a contribution into an income support fund. After a minimum period in employment, which could vary according to their wage level – as little as six months to a year for those in low income work – this payment would entitle them to claim a range of benefits, including the Jobseekers' Allowance and Housing Benefit, over the duration of a training course even if they had left employment voluntarily. The size of the contribution that one would have to pay to be granted this right would vary with income. Those on low wages would have to pay very little, perhaps

only a few pounds a week, while those earning living wages would have to contribute substantially more.

This system would not effect the basic rights of the jobless. Those losing their jobs involuntarily would remain entitled to benefits.

A further option would be to encourage a second layer of provision, akin to the system of company and private pensions, to develop. Better paid workers could take out additional coverage while in work to top up the level of benefits they would receive while retraining. This additional coverage could be provided primarily through the private market.

Such a system would naturally have to be effectively regulated to prevent abuse. People would have to spend a minimum amount of time in work after completing a training course before they could retrain. There would also have to be provision to ensure that people who undertook a sectoral training course but either dropped out or failed to find living-wage employment at the end of it quickly found work of some description and did not simply remain on benefits.

The role of the state in the new system

The state would remain at the centre of the system, determining eligibility to benefits and services, controlling funding and monitoring provider activities. Although it would no longer be a direct provider of services, this itself is nothing new. Under the New Deal, most services are delivered by subcontractors, rather than by the Employment Service itself.

Nevertheless, the state's position within the welfare-to-work system would be transformed. It would lose responsibility for and direct control over programme design. In the New Deal, sub-contractors are heavily constrained by government-imposed programme specifications. Although service delivery is farmed out, the nature of the services delivered remains closely policed by the government.

Under the new system, this would all change. The design and administration of programmes would be the sole province of the stakeholders in each sector – employers, workers and service providers. The state would have to accept a much lower degree of control over programme content. Furthermore, in particular in sectors with comprehensive programmes offering a broad range of company-funded services such as incumbent worker training and

technical consultancy, the state would lose the control entailed by its role as the primary supplier of funds.

This diversification of funding would help to promote an infusion of private money into training for the lower skilled. Most importantly, it would offer a genuine model of public-private partnership. Public and private funds and know-how would be used together to create a unique unified service for companies and the lower skilled that could not be created by either party on its own. These programmes would have the effect of blurring the lines between public and private sectors, to the benefit of both

The changes in the role of government within the system would mirror those that have overtaken businesses in the past ten years. Government would have to move away from organisational structures emphasising hierarchy and line management towards those focusing on creating outcomes by managing networks of relationships.

The state's central role would be to connect institutions and people together, whether by getting companies to co-operate, linking jobseekers, jobswitchers and training providers together or helping providers forge links with firms.

In the new model, the state's role would have five major facets:

- *The state as bridge* Perhaps the most important role of the state in the new system would be linking welfare recipients and job switchers to the right sectoral provision to ensure they attained living-wage employment. In this role the state would act in effect like a form of job ladder, linking a bad job to a good one. This is a role that the private sector simply cannot play effectively.
- *The state as provider of income* One of the state's central roles would remain to provide financially for people who are out of work or in training. Benefits would continue to be funded by the state from general revenues, although in some cases they may be delivered through sectoral providers (if, for instance, the provider wanted to pay benefit in the form of a salary to individuals going through their training programme).
- *The state as co-ordinator, promoter and monitor* The state would be the only body capable of providing economy-wide oversight of the system and ensuring that public money is invested in an

efficient, effective and fair way. It would also have a unique role in catalysing private action to fill gaps in provision. The state would play a role in this system very close to the enabling role envisioned in the Competitiveness White Paper.²⁰

- *The state as information hub* Several studies have found that individuals often lack accurate knowledge about the state of the labour market, which leads to bad career choices and poor training investments. The state would be able to provide people with information about where they should seek work, and in what capacity. The state would additionally provide information for the initiatives themselves on how to develop the capacity of their training systems to respond to the precise needs of the employers they serve, and on best practice for providers.
- *The state as active agent on the supply side* A welfare-to-work system that aims to combat poverty would have to be more pro-active in engaging low-wage workers and the economically inactive. The system would have to track people through work and actively follow-up with those in dead-end employment. It would also have an important role to play in orchestrating outreach to those who have been excluded from the economic mainstream. In addition, it would actively broker links for individuals between employability services and other public services, such as education, health and housing. Only the state would have the information and the cross-sector organisation to be able to carry out this role.

The new methods of working entailed by this shift in the relationship between the state and those delivering welfare services offer great opportunities for policymakers to broaden the range of solutions they can offer to deeply entrenched social problems. However, state agencies would have to undergo profound changes if they are to adapt to this new model of management.

The welfare-to-work system and the knowledge economy

These initiatives would have the power not just to improve the life-chances of the disadvantaged, but also to improve the economic performance of the employer side of the economy as a whole. They

would help provide two critical pieces of the jigsaw that are missing from the UK's attempts to forge a high-productivity knowledge economy, especially among the small firms that account for over 55 per cent of UK employment.

Firstly, to develop regional clusters of high-value, high-innovation economic activity, regions must have hubs of innovation, such as universities, that can drive the growth of knowledge-based economic activity. It is no accident that Silicon Valley sprang up around Stanford University. Secondly, the cluster must develop a rich pool of specialised labour to sustain its activity.

Networks of formal and informal links between firms in the cluster must develop to allow new ideas to diffuse rapidly. As Finegold and Saxenian have both argued, industry clusters like the one in Silicon Valley have stayed on the economic cutting edge precisely because the links between firms, created both through formal structures and through informal mechanisms such as high worker mobility, have encouraged a greater degree of innovation and invention than where the companies have not co-operated, for instance in the IT corridor around Boston commonly known as 'Route 128'.²¹ Silicon Valley's success is underpinned by networking at the individual level, which is aided by the regular movement of workers between companies, and by overarching institutions that aid co-ordination between firms, such as NOVA, an industry body.

A demand-led system would aid the development of a pool of specialised labour that companies can draw on to sustain innovation. The current system has been ineffective at keeping up with companies' demand for new skills. Industries like biotechnology and IT are crying out for more well-qualified workers: according to a recent report, almost 10 per cent of IT positions in the UK are currently vacant, and this number is predicted to rise to fourteen per cent by 2003.²²

Most importantly, though, it would provide a basis for improved networking between firms. Most parts of the UK economy lack the institutional structure to allow for effective networking between firms and their employees. Moreover, British firms have historically been particularly reluctant to share knowledge with competitors, even when their interests align. There is no culture of co-operation among companies, as there is in parts of continental Europe.

However, the sectoral initiatives and employer bodies laid out in

this pamphlet could provide just such a basis for effective networking between firms. The employer bodies that underpin the initiatives would provide a framework of formal linkages between firms. A number of the demand-led programmes covered in this paper, including the SFHP and Wire-Net (see Case studies appendix), have established programmes to increase the sharing of innovative ideas and best practices among participating employers through regular workshops and exchange programmes. Furthermore, many of these initiatives have used their consultancy services to rapidly diffuse information on best practices and new developments around their members.

Finally, this system could provide scope for a new model of labour market representation, and an opportunity for renewal among trade unions. Organisations which can participate in the new networks of cooperation, and practically support the placement and development of workers in specific sectors, will find themselves with a new and sustainable role in the labour market, unlike the declining role of most unions in Britain.

Towards a demand-led welfare state for the twenty-first century

This chapter has provided an outline of a new welfare system. Many points still need to be considered. The system, for instance, would clearly need to provide ways to lower important external barriers to work faced by the unemployed. A lack of available childcare or inadequate transport (something that requires far more attention than it has so far received) present practical difficulties to many seeking work.

However, the broad outlines are clear. The system would use a new institutional framework, built around employers, to align the interests of business and the disadvantaged and to knit welfare-to-work, lifelong learning and services to improve firms' and sectors' competitiveness into one seamless garment. These reforms would recast welfare-to-work as a part of the economy's productive system. It would transform the welfare system from a hindrance to national competitiveness to a support for it. In so doing, the system would create a new dynamic in many sectors which would raise their demand for skills, and the number of living wage jobs they offer, over the long-term.

4. From vision to action: tracing the policy implications of a demand-led welfare-to-work system

The first three chapters have outlined how the welfare-to-work system must adapt. The question remains: what policy steps can be taken to bring about the change that this pamphlet has described?

Government cannot rely on its traditional, top-down policy levers to bring about the suggested reform. A system that relies on networks of links between private actors and fundamental shifts in the perceptions of the welfare state by businesses and citizens alike cannot be brought into being by a simple stroke of the legislator's pen.

The government can drive change. But it must use different policy tools, and a different strategy, to achieve its ends. Reform would come about through persuasion and by catalysing relationships between private actors, not by mandate.

Government policy would need to have three prongs:

- *Idea leadership* The government would have to transform public perceptions of the role of welfare and training in the lives of working people and in the running of a successful business.
- *Catalysing relationships* The government would have to help bring companies, and providers, together.
- *Building capacity* The government would have to promote the growth of intermediary and training organisations with the capabilities necessary to serve companies. They would also have to transform the organisational capacity of the state apparatus itself so that it is adapted to the very different needs of the new system.

Idea leadership

Business would have to be convinced that the projected system can become a valuable source of specialist skills. Individuals would similarly have to be persuaded that the system provides more than just a way of replacing income during periods of joblessness, but rather a mechanism for sustaining personal prosperity. The government would effectively have to rebrand the welfare state.

The government would also be encouraging a subtle change in the way that many businesses view competitiveness: to take a longer-term, more strategic view of their interests, to co-operate in the short-term to ensure the existence of an appropriate skills base. This perspective may prove challenging in particular for smaller companies, many of whom are used to existing day-to-day, hand-to-mouth.

Diffusing ideas through any community is a difficult and uncertain process. This is why so many companies have encountered tremendous problems adapting their cultures to the demands of the 'new' economy. However, it seems clear that for ideas to gain broad acceptance they must be widely circulated, be backed by a convincing rationale that appeals to the interests of the audience and be championed by credible advocates.

- *The government should work with key sectors to set up pilot schemes* Policymakers should develop sectoral initiatives in a few industries in each region to provide impetus and an example. This could build on current policy: the government, through the New Deal Task Force, has already launched a few demand-led pilot schemes on a more limited basis.
- *The government should run a campaign to influence opinion formers within the major sectors of the economy* The government should target high-profile figures and organisations that businesses naturally turn to for strategic advice and insight, like management consultancies, accountancy firms and even leading business newspapers and magazines. The campaign should aim to engage these actors at the earliest possible stage through meetings and problem-solving retreats with senior government figures, as well as individual consultations. The aim of this policy should be to recruit these figures and organisations as surro-

gates who can effectively champion the demand-led idea in the business community.

- *The government should establish a network of regional champions to help diffuse the idea of demand-led programmes to small- and medium-sized businesses in each locality and to lead them.* The vast majority of businesses in the UK employ less than 250 people and are regional or local in focus. The government should initiate a parallel programme of persuasion to engage these smaller firms. Ministers should help recruit regional sectoral champions and should kick-off a co-ordinated and on-going campaign that might include meetings between ministers, or their business surrogates, and local chambers of commerce or branches of the Federation of Small Businesses. Virtually all the programmes reviewed for this paper were brought into being at least in part due to a champion who drove the process.

Attempts to change the attitudes of the general public towards welfare and training would by their nature have to be less focused.

- *The government should undertake an extensive advertising and promotional campaign* It should run advertising campaigns emphasising the importance of retraining and maintaining skill levels. It should also consider a targeted approach, perhaps via direct mail and other techniques, to certain groups such as those in low-wage work.
- *The government should back an educational campaign* This might include classes on the job market for children approaching school-leaving age, and, more importantly, building a message about skills obsolescence into all vocational courses. The government should also make use of non-profit organisations that are specialised in outreach, and unions, to targeted groups to help spread the message.

Catalysing relationships

Although government cannot mandate the kind of co-operation this paper calls for, it is uniquely positioned to catalyse the creation of relationships between private actors. Despite business's oft-expressed scepticism about the state's role in the economy, govern-

ment nevertheless has a convening power borne of its prestige, its moral and financial clout and its unparalleled position spanning both the demand and supply side of the labour market.

Policymakers should encourage the establishment of collective employer bodies focused on solving workforce and training issues.

- *Government should establish a seed money fund to provide working capital for these groups.* It should provide small grants to groups of firms and industry bodies to establish co-operative bodies and start up demand-led initiatives in their sector. Unlike the money in the current New Deal Innovation Fund, these funds would be available for creating sectoral intermediaries rather than just specific programmes. It should also be awarded on a sector-by-sector rather than competitive basis. The government could also provide incentives for co-operation through the provision of tax breaks for firms taking part. One option might be to offer a tax credit to all firms undertaking training and recruiting through a sectoral initiative.
- *Government should actively target sectors and convene meetings of stakeholders in each at local level.* The state could make use of its prestige and status to convene all the stakeholders in a sector in given localities to get things moving. Such state support was crucial to the establishment of the WRTP and the GIDC (see Case Studies Appendix). Bodies like the New Deal Task Force have already had some success in this approach. However, this activity would have to take place at a far more local level. Regional Development Agencies and Employer Coalitions could act as the primary agents for these activities. Crucially, though, the groups brought together cannot be merely representative, with a few firms standing in for a whole sector. The vast bulk of local firms in a sector must participate. The groups brought together by the government can only work if they are inclusive and comprehensive.
- *In targeting sectors, the government should focus on large firms.* Large firms not only bring instant labour market share with them, but can also provide the leverage to bring small firms that supply them to the table. This has been the experience of both the WRTP and the ASSA (see Case Studies Appendix). However, in

focusing their early campaign of persuasion at larger firms in a sector, the government must be careful not to alienate smaller firms, which often have very different interests.

The government is already undertaking some elements of these proposals, but in a low-level, piecemeal fashion. The novelty of the proposed approach would be, firstly, its comprehensiveness. Secondly, these initiatives and the collective bodies underlying them should always be presented as a purely business proposition. It should be described in terms of what it can do for the competitiveness of firms, and how a range of services, of which training and recruitment form only one part, would improve companies' profits.

In some cases, employer bodies along with their unions would set up their own intermediary bodies from scratch to run initiatives. In others, they would form alliances with pre-existing intermediary organisations. In both situations, they would need to form links with service providers, to help them with training or other services for welfare-to-work recipients and incumbent workers. Government agencies could help to connect firms to this external capacity.

- *Regional Development Agencies and Learning and Skills Councils should be given a new role to act as brokers between companies and service providers.* These government organisations are marked out by their strategic overview of local economies and the structure of provision within them. They should take up a formal brokering role, connecting existing providers with sectoral bodies that would be best placed to understand the needs of businesses and match them appropriately to provision. These organisations would have to develop the capacity not just to chart providers, but to assess their ability to deliver services to companies so that they can broker a good match between business and provider and catalyse responses in the provider community to gaps in local provision.
- *The government should create greater incentives for training providers to work with companies.* Funding formulas for training providers should be reworked. One way might be to make a portion of the payments that support institutions like colleges of further education reliant on company links or job placements.

Building capacity

The main challenge facing the proposed reforms in the short term is the lack of appropriate training capacity to meet the demands of employers. Although the UK is awash with training organisations, only a handful of them offer an employer-focused service of sufficient quality to be able to meet the demands of the proposed system.

The government must create a regulatory, funding and assistance regime that enables existing providers to improve the quality of their service and aid new providers, in particular those established by businesses, to rapidly build their capabilities.

Such an approach would need to have two major elements:

- *a funding and performance measurement system that focuses on outcomes, not processes*
- *a technical assistance system that disseminates best practice providers and promotes learning across networks of firms and public institutions.*

The government, in particular through the work of the New Deal Task Force, has made significant strides in piecing together the outline of such a regulatory system and has already begun to pilot its basic architecture through the New Deal Innovation Fund. However, such a system can only have an impact if it goes hand-in-hand with fundamental changes in the structure and organisational capabilities of the state's employment, training and benefits infrastructure. The government would have to adapt to working in an environment that it does not fully control, where power is based on relationships and information rather than formal authority.

Moreover, government services must be rationalised and have their levels of fragmentation reduced so that they can operate in a more unified manner, as their role at the core of the system would demand.

- *The number of policy bodies involved with welfare-to-work, lifelong learning and economic development policy should be reduced.* The government's economic development, welfare-to-work and lifelong learning agendas are all delivered through a separate system of partnerships at local level. The proliferation of these bodies is

undermining attempts to integrate services. They should be rationalised and their remit more carefully structured.

- *Funding rules should be simplified.* Currently, many programmes working in similar fields cannot be co-ordinated due to differences in funding rules and regulations. For instance, it is difficult to co-ordinate projects funded out of Single Regeneration Budgets with those supported by Innovation Funding. The government should undertake a review of funding streams and regulatory procedures with a view to rationalising them.
- *At national level, government should move from an agency-based model of delivery to a project-based one.* Services should be provided by cross-agency or cross-departmental project teams. This approach is necessary to help the system escape from a compartmentalised approach to welfare-to-work and lifelong learning. The merging of the Employment Service and the Benefits Agency should go some way towards addressing this issue, although it will not solve the whole problem. This shift will involve making departmental structures much more flexible, and being ready to link labour market policies more explicitly to initiatives in education, health, family policy, and so on.
- *There should be a well-co-ordinated information network.* The new system would have to be supported by a data network that allows government services and sectoral initiatives to share information. Co-ordination between government departments and external actors may require a new form of information network.

As the government's role changes from that of manager of process to a co-ordinator of networks of provision, the skills of those in the state employment and training service must evolve to place a far greater emphasis on networking, relationship-building and project management skills. This would require bringing people with a different set of experiences and different backgrounds into public service at every level of the system. Those already working for government agencies connected with welfare-to-work would have to learn how to deal with a new client group: businesses.

In its own employment practices, the 'working age agency' would need to embrace some of the same forces that have moulded the new

welfare-to-work system. As the lines within the system between public and private sector blur, so must the divides separating careers within them. People would have to become freer to move in and out of Civil Service employment. Periods of leave for civil servants to work in the private sector and fixed-term, project-based appointments in the public sector for those who have worked for firms should be encouraged. The government should encourage job mobility within the welfare-to-work system so that government employees might move into a position with the sectoral intermediaries and vice versa.

As part of the overall re-engineering of the Civil Service machinery for supporting the welfare-to-work system, the government should consider piloting a contributory insurance system as described above to pay for income maintenance during periods of voluntary retraining.

Conclusion: is reform realistic?

The changes proposed in this paper entail a radical re-alignment of both the internal organisation of the welfare state, and its position within the labour market and society as a whole. The obvious question is whether this is realistic. Can we really expect companies to participate on so grand a scale? Are there enough living-wage jobs to support such a system? And would the Exchequer be prepared to fund the shift to a new system?

Corporate involvement will not build up all of a sudden. However, because of the market forces that would drive the proposed system, this involvement could appear relatively quickly in the sectors of the economy most heavily ravaged by fierce competition and skills shortages. The experience of the programmes reviewed for this paper suggests that if the system proves successful in these limited areas, others would show themselves willing to experiment.

There is significant evidence that there would be sufficient living-wage jobs available to support such a system. The majority of jobs in the UK today already pay a living wage and many sectors are already experiencing skills shortages. Demand-led training services would not only open up access to them, but by pushing up the skill levels of the population and helping transform the competitive strategies of the firms they were serving, would also increase the skills demanded and the number of living-wage vacancies offered by

employers. While there would probably never be enough better-paid jobs to support everyone in work, there would be enough to make a substantial impact on disadvantage in the UK.

The biggest question here, however, is about the intent of this and future governments. While there are many areas of overlap and synergy between these proposals and those being pursued by the Blair administration, such as the University for Industry, the proposals entail increased spending in the short and maybe even medium term. It has already been argued that the costs of a new system might not be as great as first appears. More importantly, though, whatever the start-up costs of a demand-led system are, they would be dwarfed by the price the welfare state must pay if it fails to confront the problems created by labour market change.

As long as the welfare-to-work system fails to move people into living-wage jobs, the welfare state will continue to feel mounting financial pressure. If the welfare system is to remain fiscally or politically viable, it must stop subsidising labour market failure among those at the bottom of the ladder, and start creating success. Reform is not merely desirable, but essential, if the welfare state is to remain a positive force for fighting disadvantage in the twenty-first century.

Case studies appendix

Almost 40 programmes and initiatives from the US and UK were examined for this study. The case studies below summarise 25 of the most interesting and innovative programmes reviewed.

Automotive Sector Strategic Alliance (ASSA), Sunderland, Tyne and Wear

ASSA was established in 1997 by Nissan, the car manufacturer, to help develop and maintain a skilled workforce for its Washington plant and its suppliers. Since its creation, ASSA has grown from a focused welfare-to-work provider into a broad-based workforce development organisation that is dedicated to improving the competitiveness of the car manufacturing sector in Northeast England. The main key to ASSA's success has been its close relationship with the firms it serves. The majority of its employees come from the automotive sector, and the organisation works closely with the companies to ensure that their training courses meet the employers' current and future needs. ASSA's operations are divided into a number of streams. Its workforce development division runs a variety of programmes intended to address future workforce needs, including a number of school-to-work programmes and a customised welfare-to-work programme.

Through its training arm, Lakota Training, the Alliance offers on-going instruction to existing workers at member firms to enable them to keep abreast of the rapidly changing skills needs of their employers. ASSA is also heavily involved in drawing up training packages for the University for Industry's learning direct curriculum on the automotive industry. Towards the end of 2000, ASSA established a research project to examine how the regional automotive sector could enhance its overall competitiveness through the development of new key skills among the local workforce.

Burger King Career Ladder, Grand Rapids, Michigan

The Career Ladder is the brainchild of Stuart Ray, a Burger King franchisee who owns 40 restaurants in the Grand Rapids area. The scheme offers former welfare recipients who are employed by Burger King the opportunity to graduate to living-wage employment with Cascade Industries, a local light manufacturing company. Workers must maintain a strong work record and pass relevant vocational courses at the local community college in order to be considered for the higher paid jobs. The programme is funded by grants from state agencies. The programme is meant to provide benefits to the businesses involved in the form of higher quality recruits for Cascade and a lower turnover rate for Burger King. To this point, however, the initiative has

met only limited success: few recipients have graduated to higher-wage jobs and most of those have quickly lost them. The programme has had less effect on Burger King's turnover rates than more traditional human resource management methods, such as offering workers flexible work schedules.

Cape Cod Hospital Career Ladder (CCH), Cape Cod, Massachusetts

The Cape Cod Career Ladder came into being in 1983 as part of an agreement between the Cape Cod Hospital and the Service Employee International Union (SEIU). The system offers existing workers fully-funded training, job shadowing opportunities and mini-apprenticeships to enable them to move into higher-paid positions either in their area of competence, or in another field if they chose to transfer. If the workers do not complete their training, they are liable for the full costs of the it.

Center for Employment Training (CET), San Jose, California

Established in 1967 to provide training and social support to Hispanic farm-workers, CET operates what is arguably the most long-standing and best known demand-led programme in the US. The centre trains low skilled individuals for skilled manual jobs in Silicon Valley using an individualised curriculum that combines training in basic skills with vocational and technical instruction. All training takes place in a simulated work setting and a heavy emphasis is placed on drawing instructors with strong experience of the needs of employers: the average trainer at CET has over fifteen years of local private sector experience. As with other demand-led programmes, courses are self-paced, so that students can take the time necessary to master vital skills.

While its programme design is important, it is CET's links with local employers that have formed the key to its success. It has used its formal ties with firms and its business-orientated faculty to ensure the continuing responsiveness of its curriculum to the demands of the private sector. As a result, the centre has become the first source for skilled workers for many businesses in the San Jose area.

The success of CET's approach has been comprehensively documented. Numerous studies, including a number undertaken by the US government, have found that CET has consistently placed over 75 per cent of its students who previously claimed welfare into employment, has produced sustained earnings increases of over 40 per cent among its clients, and has substantially outperformed conventional welfare-to-work initiatives. In response to this performance, the US Department of Labour has established a replication programme that has seen CET sites established in over 40 locations, although with very mixed results.

Co-operative Home Care Associates (CHCA), New York City, New York
Founded in 1985, CHCA is a worker-owned, for-profit company that employs welfare recipients as nursing aides to serve in elderly care homes. The company seeks to provide its employees with a family-supporting level of income by guaranteeing a minimum number of hours of work per week and by providing basic health benefits. Rather than placing recipients into high-wage jobs, it seeks to restructure a lower-wage position to improve and stabilise the income it pays. The firm seeks to do this by staking out a competitive position at the high-quality end of the market, which allows it to charge more for its services and gives it an edge over traditional providers. Trainees – over 80 per cent of whom were previously on welfare – are given four weeks of classroom training followed by 90 days of work experience. Upon taking up a position, employees buy into the company with a \$50 down payment, and thereafter receive dividends at the end of every year. The co-operative employs over 500 people, and pays an average wage of over \$7 an hour, a high for the industry. As a result, its turnover rate is less than a third of the industry norm. However, the model does face certain limitations. It cannot guarantee a minimum wage level to junior aides and attempts at replication in Boston and Philadelphia have not met with great success. Similar models, however, have been piloted in different sectors with some success. The Satellite Child Care Programme in New York City has helped recipients to train to become self-employed childcare providers. Many of these recipients earn upwards of \$20,000 a year.

Denver Workforce Initiative (DWI), Denver, Colorado

One of the six programmes that composes the Anne E. Casey Foundation's Jobs Initiative, the DWI programme focuses narrowly on ensuring a good match between welfare recipients and potential higher wage employers. The DWI's approach is built around a network of 'Community Coaches', trusted members of low income communities who spend time with specific employers to understand their needs and their culture and then use their knowledge of their own community to find someone who would effectively fulfil these requirements. The coaches act as mentors to recipients who enter employment through this process. The Initiative also offer specialist job preparation curricula to all their clients and training to employers to help them work well with employees drawn from poorer communities.

Edinburgh Park Centre of Excellence for Access to Employment and Learning, Edinburgh, Scotland

Due to be launched in 2001, the Edinburgh Park initiative promises to be the first demand-led project in the UK to properly fuse welfare-to-work and life-

long learning under one roof. The initiative is based around a high-technology industrial park in West Edinburgh. A centre would be established at the park itself to provide a location through which customised welfare-to-work training can be offered to meet the recruitment needs of the major participating employers, and training can be provided to help existing workers upgrade their skills. The centre would provide social support services such as childcare and act as a transport hub for easy accessibility.

Essex Community College/Training Inc. Programme, Newark, New Jersey

Essex Community College, a vocational training provider, runs a set of specialised and customised training programmes aimed at placing disadvantaged residents of Newark into higher wage jobs. The programmes, based on those designed by Training Inc., a national training provider, target IT, security, and office positions and offer 600 hours of training that is spread over twenty weeks. The training takes place in a simulated work environment and includes internships with potential employers. The programme is built on a strong network of employers who are heavily involved in the design and execution of the programmes. While statistics for the Essex programmes are not available, Training Inc. claims that almost 90 per cent of their trainees graduate and that the vast majority of those find work, with 82 per cent still being in employment a year later.

Fastrack to IT (FiT), Dublin, Ireland

Launched in 1999, the FiT initiative is intended to help address the skills shortage faced by the IT industry in Ireland. The programme offers unemployed people from Dublin's poorest areas firm-specific training as software technicians, technical support workers or customer service operatives, as well as general training towards industry-standard qualifications. Participants undergo soft skills training before undertaking an internship with one of the participating companies that often lasts months. However, unlike many of the other programmes reviewed for this piece, the programme does not offer the promise of a job at the end of training. As of mid 2000, over 500 people had finished the classroom training element and it is intended that over 3,500 people would be trained during the lifetime of the programme. Although the Irish government set up the initiative, it remains strongly industry-led, with a number of major IT firms, including Microsoft and IBM playing a major part.

Focus:Hope, Detroit, Michigan

Focus:Hope, a community-based organisation founded in response to the

1967 Detroit riots, has operated a specialist training programme for inner-city youth since 1981 to gain skills in machining and metalworking. The organisation runs a variety of training courses, generally over a year in length that prepare unemployed people for specific high-skilled machinist and technician jobs in the automotive industry. Participants undergo four hours of classroom training and four hours of shop-floor experience each day. On average, over 1,000 people go through the courses every year. The organisation also runs four for-profit businesses employing eight hundred people, and a best practice machine shop that provides technical advice to smaller local firms on business modernisation, as well as giving trainees a chance to acquaint themselves with the latest industry equipment.

Garment Industry Development Corporation (GIDC), New York City, New York

The GIDC was founded in 1985 by a partnership of New York's leading apparel firms and the industry's major union to help arrest the sector's precipitous decline in the face of foreign competition. The initiative offers two main types of service: training and referral systems to ensure that firms have access to a high-skill workforce and workers to a living wage; and it offers business support services. The GIDC provides an eight-week intensive training course, 'Super Sewers', to help displaced workers for the industry increase their skills and quickly find new employment. The initiative also offers a range of higher-level, customised training programmes for incumbent workers, both at a central training centre and at the work site. Over 600 workers and unemployed pass through these programmes every year. To complement this system, the initiative runs a centralised referral and matching system so that unemployed sewers can be effectively matched with new job openings.

The GIDC operates an export and technology centre, which helps participating firms upgrade their production systems, improve productivity and sell their goods on the world market. The programme has a sourcing centre to support member firms procurement needs and offers businesses on-site needs assessments to help them identify how they can most effectively build their production capacity.

Jane Addams Resource Corporation (JARC), Chicago, Illinois

Established in 1985, JARC is a community-based organisation dedicated to supporting the metalworking businesses that provide over 20 per cent of all employment in the North Center area of Chicago. JARC provides training, industry modernisation and industrial site redevelopment services. Its training courses are aimed primarily at incumbent workers, although the organ-

isation does run a welfare-to-work programme. It offers a number of specialised training programmes focused on metalworking skills and basic skills remediation, with training taking place both at a specialist training centre and at the work-site. As part of its modernisation programme, JARC runs a metalworking network and modernisation support group to help firms swap ideas and establish-sector-wide solutions to problems. JARC has cultivated strong links with the national metalworking trade associations as part of this programme. The organisation manages several light industrial sites where it has reclaimed disused industrial land and renovated it for use by small firms.

Jobsplus, multiple sites, USA

The Jobsplus programme was designed as an eight-site demonstration project to showcase career-ladder approaches utilising 'dead-end' jobs as stepping stones to higher wage jobs. It was intended that young people would move between jobs at different employers in a set sequence across a range of sectors, graduating to higher level positions as they mastered the skills needed for their current one. This developmental work experience sequence would be overlaid by a system of training and social support services. Three test sites were established in 1994-95, but the programme quickly ran into difficulties. The intermediaries involved found it difficult to adapt to their new role, and the initiative encountered problems in engaging employers. As a result of these on-going difficulties, the programme was effectively wound up in 1996-97. The experience of Jobsplus is instructive, as it underlines the problems of creating stable and effective programmes that rely on firms working together without providing the overarching structure to support co-operation that sectoral initiatives provide.

Labor-Management Council for Economic Renewal, Detroit, Michigan

The Council was formed by small automotive parts suppliers and the United Autoworkers union (UAW) in 1990 to help the companies negotiate 'bulk discounts' to lower their modernisation and training costs. The organisation runs an employers network and workshops, supported by an electronic data exchange system, to help employers learn and engage in best-practice ideas around modernisation and work process redesign. The Council offers centralised training to allow the firms to give their employees advanced training that would otherwise be unavailable due to their size.

Local 1199 Healthcare Training Programme, New York City, New York

Established through a collective bargaining agreement between 55 private healthcare providers and New York's largest healthcare union, Local 1199, this programme set up a central, multi-employer training fund to help those

in entry-level positions gain the skills to move into living-wage jobs, and to help displaced workers reskill and find new employment. Employers each contribute 0.75 per cent of their payroll expenditure into the fund, which is used to support training to a set of firm-recognised standards. The programme also involves employee participation in work re-design and modernisation.

Laborers' International Union of North America (LIUNA) Hiring Halls, multiple sites, USA

Over the last two decades, LIUNA has established a range of hiring halls across the US in conjunction with employer bodies to provide training for workers in the construction industry as part of an effort to increase construction incomes and boost worker productivity, which has been falling since the mid 1960's. The problem arises as construction workers are only employed temporarily by firms to work on specific projects. These firms therefore have no incentive to invest in workers' skills for the long-term. Workers have uncertain income streams and hence, find it difficult to invest in their own skills or build up savings. The hiring hall tries to avoid this problem by getting employers to agree to hire workers for new building jobs from the central pool. All firms pay a contribution towards the hiring hall's training fund, and the hall undertakes to provide training itself. The hall helps regularise workers' income streams and provides a mechanism through which short-term workers can build up private pensions and health-care coverage. This system trained almost four thousand workers across the US in 1997-98 but remains small in comparison to the size of the construction sector overall. This approach is being piloted in several other sectors, most notably by the Communication Workers of America union, which has established halls in several sites. However, these efforts have been of only limited success, as such pre-hire agreements only enjoy legal protection in the US in the construction industry.

Milwaukee Jobs Initiative (MJI), Milwaukee, Wisconsin

The MJI supports a range of demand-led programmes in the construction, printing, manufacturing and hospitality sectors. In each case, the Initiative has established programmes that feed welfare-to-work recipients into an established sectoral training system intended primarily for incumbent workers. For example, in the manufacturing sector, the MJI has set up a programme that places welfare recipients into better paid jobs through the Wisconsin Regional Training Partnership. The joint programme, which has placed over 300 clients since its inception, provides clients with the basic and customised skills they need to undertake training alongside current

workers and to gain a placement. MJI itself does not administer the programmes on a day-to-day basis; rather, it sets them up, provides funding, monitors outcomes and leaves the task of management to the sectoral organisation with which it is collaborating. Thus far, this approach has yielded considerable success: MJI clients have averaged wages of over \$11 an hour on placement, and 60 per cent have remained in their jobs after one year.

Philadelphia Jobs Initiative (PJI), Philadelphia, Pennsylvania

The PJI supports a number of programmes within the Philadelphia area. As with other Jobs Initiative sites, the PJI targets a number of sectors, running a Manufacturing training programme and an institute to train workers for customer service jobs in a range of industries from Financial Services to Retail. These programmes have already enjoyed some success: the average wage of Manufacturing programme graduates is over \$14 an hour. However, the Initiative runs a different form of programme: a 'Social Venture Capital' programme. The Reinvestment Fund, the organisation that administers the PJI, makes grants to growing local firms that wish to use disadvantaged people to help address their skills needs. As part of this initiative, the PJI runs a 'Workforce Services' programme that provides customised training to lower skilled individuals. In several cases, the Reinvestment Fund grant is used by the firms to hire specialist HR staff to help support the disadvantaged workers adjust to their new environment. The PJI has placed almost 900 people into higher wage jobs through this programme.

Pioneer Human Services, Seattle, Washington

Pioneer is a social service provider that offers a range of activities targeted primarily at the rehabilitation of substance abusers. On top of its drug treatment and housing programmes, Pioneer operates a form of career ladder programme based around employment in a set of for-profit enterprises that the organisation runs, including a hotel, a light manufacturing plant and a deli. Pioneer offers programme participants the chance to move between businesses, and onto higher wages as their skills develop in each position. The organisation's training programmes accommodate over 400 people at any given time, and operate without grant money.

Project Quest, San Antonio, Texas

Quest is the result of collaboration between two major community based organisations in response to the closure of the San Antonio Levi Strauss factory in 1992. Quest was part of a range of measures put in place to shield the local community from the worst effects of the jobs losses that followed. The programme offers comprehensive financial and social support to individuals to enable them to complete a two-year training programme in health-

care, business services or light industry. Those graduating are placed in jobs with one of more than 50 employers. Enrolees are also offered initial basic skills training to ensure that they meet the minimum skill levels needed to participate. Quest combines a customised training approach with activism among firms to persuade them to structure and upskill their entry-level jobs to make them more accessible to disadvantaged workers and to ensure that they pay living wages. The programme has had a profound effect on its graduates: they have experienced average increases in income of between five and eight thousand dollars a year, depending on the sector. As a result of this performance, Quest won a prestigious 'Innovations in American Government' Award in 1995. However, despite this success, Quest has faced a number of problems. Its drop-out rates are high, over 40 per cent of those who volunteer for the programme do not wind up enrolling, and many of its graduates who go into light industrial jobs earn less than a full living wage.

St. Louis Jobs Initiative (SLJI), St. Louis, Missouri

The SLJI is one of a number of programmes run under the auspices of the East-West Gateway Co-ordinating Council, a collaborative body of more than 400 organisations that co-ordinates social service strategy and delivery in the Greater St. Louis area. The SLJI programme to this point has focused on employers in the healthcare sector. The programme offers recipients a short job preparation course followed by a period of job shadowing at their chosen employer. At the conclusion of the shadowing period, recipients enter a customised training programme that is taught at the employer's site. The course length varies by employer and by recipient. As with several other demand-led programmes, trainees divide their days between classroom activities and actual work. By mid 2000, the SLJI had placed almost 500 recipients into higher wage jobs.

San Francisco Hotels Partnership (SFHP), San Francisco, California

The SFHP was set up in 1994 as part of a collective bargaining agreement between San Francisco's twelve largest hotels and the two main hotel workers' unions, covering over five thousand workers. The purpose of the initiative was to increase the hotels' share of the national market while simultaneously improving working conditions. The cent re-piece of the Partnership are sixteen joint labour/management problem-solving teams that have been used to overhaul the hotels' workplace efficiency and significantly boost productivity. As part of this overhaul, a range of customised training systems have been introduced. The Partnership has established a welfare-to-work programme with a local non-profit organisation that offers recipients training for entry-level positions and offers those who graduate guaranteed jobs at an

average wage of \$12 an hour. In addition, a number of skills upgrade and career ladder programmes have been established to offer existing workers new skills to enable them to move into better paid jobs. Through these and other worker retraining programmes, the SFHP has given upgrade training to almost two thousand workers, and helped to substantially increase the number of workers within the industry earning a living wage.

Seattle Jobs Initiative (SJI), Seattle, Washington

Like the other Annie E. Casey Jobs Initiative sites, the SJI has targeted a number of sectors- clerical/office, health, manufacturing and 'reactive hiring'(where employers simply need an individual with a standard set of skills at short notice)-as the focus of their activities. The Initiative provides recipients with one week of work preparation before moving them into customised, higher level vocational training courses provided by a number of community colleges. Links with employers are underpinned by the work of the programme's employment brokers who work with businesses to ensure that curricula remain responsive to their needs and that the standard of trainees remains sufficient. Using this system, the programme has placed more than 1000 people into work, paying an average starting salary of almost \$10 an hour. Furthermore, half of all those placed receive raises in their first year, taking their average to over \$11 an hour.

Westside Industrial Retention and Expansion Network (WIRE-Net), Cleveland, Ohio

WIRE-Net was founded in 1986 to help maintain manufacturing employment in Cleveland's west side by offering a range of services to support local industry. WIRE-Net's work is focused around two core activities: training and networking to connect firms and spread best practices between them. Through its Hire Locally programme, WIRE-Net matches experienced workers to vacancies with local manufacturing employers and offers basic skills remediation to those who need it. Every student in basic skills training is sponsored by a firm that guarantees a job should they complete the course to the company's satisfaction. The organisation runs a customised training programme that has thus far placed over 200 people in jobs paying an average of \$8 an hour. WIRE-Net runs a string of peer-to-peer learning groups, as well as training workshops for employers to learn about best practice in their sectors. The organisation provides referral services that help companies gain access to consultants and to customers. Almost 200 firms pay a small annual subscription to participate in WIRE-Net's activities.

Wildcat Service Corporation Private Industry Partnership (PiP), New York City, New York

The PiP initiative was established in 1995 by the Wildcat Service Corporation, a well-established New York intermediary organisation, to place low-income individuals into living wage jobs in the financial services industry. Participants undergo between 16 and 32 weeks of training that is highly customised to the needs of specific positions at specific employers. The training schedule alternates between weeks of classroom training and weeks of actual paid work. At the completion of training, participants who are deemed ready are interviewed by an employer. Those who meet the firm's standards are employed by the company on a sixteen week trial basis. At the end of this period, companies make their final hiring decision. The PiP programme remains arguably the most successful welfare-to-work programme in the US. Less than 10 per cent of its participants drop out during training, and almost 90 per cent find employment paying an average income at placement of \$28,000. Even more impressively, over 90 per cent of those placed are still in work two years later. Much of this success is down to the effort Wildcat has made to develop a service-orientated culture that is highly responsive to the needs of its corporate customers.

Wisconsin Regional Training Partnership (WRTP), Milwaukee, Wisconsin

Covering over 40 firms and 60,000 workers, the WRTP is the largest sectoral project in the US. Set up in 1992 as part of a business/labour initiative to address the declining competitiveness of the metalworking industry in southern Wisconsin, the WRTP's activities focus on three main areas: training incumbent workers to adapt to new working methods and new technologies; training new workers to ensure future reserves of skills; and industry modernisation to improve productivity and product quality. The Partnership is built on a collective agreement by firms to invest a minimum percentage of their turnover into updating worker skills. The structure of the WRTP is more devolved than similar initiatives: training at each location is run by a site-specific committee, but through structures monitored and supported by the central organisation. Training takes place primarily through workplace training centres run at each business site. The WRTP's central organisation helps employers develop specific curricula and operates joint centres for smaller employers. In 1998-9, almost three thousand incumbent workers went through this training, with many others receiving on-site instruction. WRTP members spent an average of \$700 per worker on training.

Welfare-to-work and new worker training is provided both directly by firm training centres through apprenticeships, and through alliances with non-

profit providers like the Milwaukee Jobs Initiative. Welfare recipients entering work through these channels have consistently averaged starting wages of over \$11 an hour. These organisations provide welfare recipients with customised training to prepare them for the more advanced vocational training they would receive at the WRTP training centres. In all cases, new employees are trained alongside incumbent workers. The modernisation programme uses the WRTP's site-specific structures to help enact workplace reforms and introduce firms to new technologies. Almost 90 per cent of participating firms have set up work re-organisation committees to oversee the restructuring of the workplace to support higher skill, higher quality production, and over 75 per cent of participating firms have implemented large-scale reforms to their production processes to increase product quality.

Other initiatives reviewed for this paper:

- Chicago Manufacturing Institute (CMI), Chicago, Illinois
- Communication Workers of America Hiring Halls, Cleveland, Ohio and Seattle, Washington
- Demand @ Work in IT, London, UK
- Industrial Exchange (InDex), Tulsa, Oklahoma
- New Orleans Jobs Initiative, New Orleans, Louisiana
- Philadelphia Area Accelerated Manufacturing, Inc.(PhAME), Philadelphia, Pennsylvania
- San Francisco Works, San Francisco, California
- Satellite Childcare Programme, New York City, New York
- Seattle Works, Seattle, Washington
- Working Partnerships, San Jose, California
- Working Today, New York City, New York

Notes

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