

# From Underclass to Working Class

HOW PROFIT-MAKING FIRMS  
PULL MARGINAL LABORERS  
INTO  
SELF-SUFFICIENCY



Dave is a black ex-convict in Dallas. He's hooked on cigarettes and alcohol and I'm not sure what else. He has little education, little money, poor manners, and no credible job experience. He also happens to be a likable person once you get to know him, but the typical employer or landlord is not going to find this out. In the normal course of events, Dave could be jobless and homeless.

But today Dave is lucky, for an unusual organization has taken him under its wing. It has given him a bed, a warm, safe place to sleep, a hot shower, and doughnuts and coffee for breakfast. It has found him a job, given him the equipment he needs for the job, provided transportation to and from the work site, supplied a sandwich for lunch and a five-dollar advance on his pay in case he needs to buy something more during the day.

The organization helping Dave onto his feet is not a federal job-training program, not a church shelter, not a city youth corps. It's a private, profit-making company that receives no government aid of any kind and, indeed, pays \$1.4 million in taxes to federal, state, and local governments.

The Dallas branch of Industrial Labor Service Corporation (ILS) is the largest employer of temporary manual laborers in the city—650 jobs offered on a typical day. It also operates a shelter named the Bunkhaus that accommodates up to 180 men per night. It pays its workers an average of \$4.70 per hour and charges \$7.50 per hour for their labor. From this \$2.80 spread, it pays dispatchers, van drivers, salesmen, the computer operators who issue some 195,000 individual pay vouchers per year, 24-hour security guards, license fees, van leasing, rent, utilities, and, of course, taxes, taxes, taxes. After all these expenses, ILS still makes a profit of about 17 cents per hour of labor contracted. This achievement is remarkable given the competitiveness of the industry: some 15 firms in Dallas supply temporary manual workers. Furthermore, ILS's clients are also its competitors. They always have the option of hiring workers directly, skimming away ILS's best workers by offering them permanent jobs at a higher wage.

Yet ILS's success in the marketplace is not its greatest achievement. It is also (almost without knowing or caring



about it) a highly effective social welfare program. This comes as a surprise. The down and out are supposed to require charity—handouts and compassion—not capitalists trying to make money from them. Yet a close look at ILS operations reveals that the theory of the invisible hand, whereby profit-seeking can unintentionally serve the public good, applies even in personal welfare programs.

Not that ILS is a welfare panacea: it aids only a particular kind of worker, not all those who have problems. Workers who are blind or crippled, for example, cannot be helped by ILS-type job brokers. Nor can those whose financial demands exceed minimum-wage employment. But for the kind of individuals who make up the core of America's dependent population—healthy individuals lacking motivation, organization, or contacts—the ILS Bunkhaus model offers valuable lessons.

by James L. Payne

## THE STEADYING, MOTIVATING

### INFLUENCE ON THIS LITTLE

### COMMUNITY IS WORK.

### THE REAL JOBS TO BE HAD AND MONEY TO BE EARNED PROVIDE AN ORDER AND CAMARADERIE TO THE SHELTER.



To learn about the ILS operation, I entered the system for a few days, slept in the Bunkhaus, and took jobs through the hiring hall. The Bunkhaus charges lodgers five dollars a night and covers its costs with this income. In demanding something from its customers, the company has to give something in return. Its biggest service, I realized, is security. As I gradually learned, most of the men staying in the Bunkhaus have done time in prison. Yet somehow just one manager and one security guard keep good order among this rough humanity. These staffers know how to screen out the worst troublemakers, exclude drugs, and cool off altercations before violence breaks out.

Part of their strategy is to allow the workers considerable freedom and to accommodate their needs. Smoking is permitted, and beer is allowed, although it cannot be brought in after 10 P.M. These concessions to human weakness respect the worker's dignity (after all, you can drink and smoke in a hotel room).

The workers, while predominantly black, are racially mixed, by the way, yet there is little sign of racial hostility. As I walked around the Bunkhaus one evening during a televised Dallas Cowboys football game, half a dozen blacks cordially offered me, a white stranger, a beer.

In addition to television, the Bunkhaus has laundry facilities, vending machines, a microwave oven, free coffee, free baggage check, and free blankets; it sells work shirts and jeans for \$1. Naturally, some aspects would offend middle-class sensibilities. The toilets, for example, have no seats. The beds have bottom sheets but no top sheets, and most of us slept in our clothes. The night noises in the one-room dormitory of 150 men keep the newcomer awake at first, but one adjusts. On balance, the profit-seeking entrepreneurs of ILS have developed an excellent lodging value—a better deal in my opinion than the \$30-a-night seedy motel beside the freeway where I stayed a few nights later. That others agree with me is proved by the fact that some workers continue to stay at the Bunkhaus even after they've progressed beyond ILS's temporary jobs and gotten steady employment on their own.

The steadying, motivating influence on this little community is work. The real jobs to be had and money to be earned provide an order and camaraderie to the shelter. The discipline of work sends the men to bed early, with lights out at 10 P.M., and propels them to rise when the lights pop back on at 4 A.M.

The hiring hall is located just around the corner from the Bunkhaus. Newcomers wait until a dispatcher at one of the windows announces a work opportunity. When jobs are few, the laborers crowd around the windows to be first in line. This seems unfair and arbitrary, for it rewards aggressiveness and might penalize a worker who waited patiently and politely for hours. Later, I saw its wisdom. Many who come to the hiring hall are rather unmotivated, or are even using it as a warm place to doze off drug or alcohol after-effects. If the firm sent such

workers out on a job, employers would quickly be disappointed. Selecting candidates from those who crowd around the dispatchers' windows is a cheap, informal way of screening workers according to their motivation.

The real jobs provided at the hiring hall provide the men with a sense of accomplishment. Social policy today emphasizes self-esteem, but treats the concept mechanically, as if it were a substance that could be given out in doses like a pill. But it's not enough to tell someone, "You're the greatest!" He has to *know* he's done something worthwhile. Many government agencies will give someone

money and pretend he's "working" for it, but the client knows this is a sham. In a dozen ways they sense the pointlessness of the projects: time wasted standing around, long breaks, endless "instructional videos" and fruitless "orientation sessions"—these are the stuff of government "job" programs. Enrollees see tasks left unfinished, foremen who disappear from the work site for long periods, a complete lack of urgency. What these signals reveal to enrollees is that *no one really cares whether this work is done*.

In a real job, where an employer "selfishly" demands productive labor in exchange for money, the worker can hardly escape gaining a sense of accomplishment. This applies even to manual labor, perhaps *especially* to manual labor. When you've dug a ditch or unloaded a 60-foot trailer truck, you know you've accomplished something that sets you apart from, and somewhat above, the soft and unproductive sectors of society.

But meaningful jobs don't grow on trees, and they cannot be dreamed up by administrators twiddling pencils at their desks. They come from the world of commerce and production. The most important figures in a work program are therefore not trainers or counselors, but the salespersons who find the real work opportunities. In a charitable agency this task is easily overlooked, but in any private firm the sales function is critical for survival. ILS has a sales force of five employees. They toil concentratedly to link the men under their oversight to paying employers—cajoling, encouraging, extending offers, so that ILS workers have a shot at a meaningful, dignity-enhancing job.

Workers at the bottom of the social scale commonly lack good habits. Arriving on time, doing what one is told, and not talking back can be problems. Government job-training programs have difficulty inculcating good work habits because they are funded according to the number of people served. Administrators have an incentive to tolerate disruptive workers just to keep up the program's client base.

In the profit-making world, the incentives are reversed. Employers' output depends on workers with good work habits, and so profit-seekers systematically discourage bad work habits. For example, on my first day with ILS, six of us were dispatched to a construction project in the Dallas suburb of Plano. After 15 minutes on the job, two workers were at the bus stop with their

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brooms and shovels, waiting for a ride back to Dallas. The foreman fired them because, among other things, they failed to stand up when he began to give instructions, and because they failed to put on their hard hats after he told them to.

The following day I too felt the lash of labor discipline. I had collected my job ticket and equipment to return to the same construction site and was waiting under an awning during a heavy cloudburst when my van was called on the loudspeaker. I figured I could wait a few minutes until the shower passed, but I figured wrong. By the time I reached the van, I had been replaced. This meant I dropped back into the newcomer's labor pool and didn't get another job for the rest of the day. Henceforth, I paid obedient attention to what the loudspeaker said.

Beyond wages and hours, every job involves many less tangible working conditions. In the world of marginal manual laborers, one of the most important of these side issues is how workers are treated socially. Because of their shabby dress and poor grooming, there is the temptation for those in higher positions to be inconsiderate to bottom-rung workers. I was surprised to discover that at ILS, the staff treats all workers with professional courtesy. On the Bunkhaus loudspeaker we were addressed as "gentlemen." At the dispatch windows and equipment counters, I saw no instance of a worker being treated roughly or unhelpfully.

One explanation for this politeness is the background of the staff: many have been temporary workers and sympathize with their plight. "Some guys think I'm too hard on 'em," says Bunkhaus manager Brien Colvin, "but with the majority of the tenants here, I feel pretty much well-liked. At least they know everything that I do I'm doing for their benefit. I've been on the other side of the fence, I know how it is. 'Bout seven years ago when I first came to Texas, I was homeless. So they can't tell me anything."

There's also an economic pressure for courtesy. No matter how grubby and unimpressive they may appear, these workers are necessary for the success of the business. They are customers, and the company needs to keep them coming back, for an empty labor hall spells trouble. When the employment market was especially tight in the summer of 1994, ILS offered a \$5 sign-up bonus to attract laborers. Courtesy is yet another employment incentive.

The pressure to treat workers well comes from the highest level. "That was one thing Charles really came down on us about on his last visit," reports assistant manager Eric Veblen. "In the

day-to-day rush, you know, you get careless about how you treat the workers, and it's good for someone to call you out about it." Veblen was referring to the principal owner of ILS, Charles Joekel, who drops by the Dallas branch office from time to time. Again, one is struck by the contrast with government. One could hardly imagine a senator or mayor visiting a tax-funded job center and reminding staff to be courteous.

Pity tends to beget an intolerant style of helping others. When you feel sorry for someone, you are in effect disapproving of his way of life: the down-and-outter should get off drugs, stop wasting

his money on cigarettes, get a steady job, and move into a home in the suburbs. If he fails to improve in the prescribed way—perhaps because he finds his life acceptable, or perhaps because of deep-seated character limitations—the helper becomes short-tempered and frustrated.

This "compassion fatigue" is beginning to undermine support for programs aimed at the needy. Reverend John Woods, who runs the Gospel Mission in Washington D. C., makes no bones about the growing mood of impatience. "People are getting tired of supporting the homeless and, quite frankly, so am I. People want to see change."

A market-oriented system offers an interesting contrast to this fickle charitable approach. In a commercial arrangement, there are no donors who demand lifestyle changes in return for alms, only buyers and sellers. ILS will help—give cash to, give food to, give shelter to—anyone who exchanges a day's labor. Since the company benefits from this exchange, it has no grounds for insisting on a lifestyle change, and no reason to be upset if it doesn't occur.

Near my bed in the Bunkhaus, there was an older man I'll call Ben who spent every free moment after work sitting on his bunk chain-smoking cigarettes, sipping coffee, and staring at the floor. Every few minutes, he interrupted his silence with a fit of hacking and coughing. Ben was white but the fingers on his cigarette hand were scorched a golden brown. Over the next few days, I chatted with him and observed him, trying to figure out what one might possibly do to rescue him from this pathetic pattern. I felt helpless to discern a solution. Then it dawned on me a solution wasn't required. Ben was not in a taxpayer-funded rehabilitation program that required he should change his ways; he was working and paying for his own bed. In a basic economic sense, his way of life was viable, and he was entitled to it.

Every year a small fraction of ILS workers do move on to better-paying, permanent jobs. An unknown number get beyond the drug, crime, and personality problems that beset them. But such social rescues are not the measure of ILS's success. Even if they never happen, the ILS system of aiding underclass workers like Ben rolls steadily along, powered by that great antidote to fatigue: self-interest.

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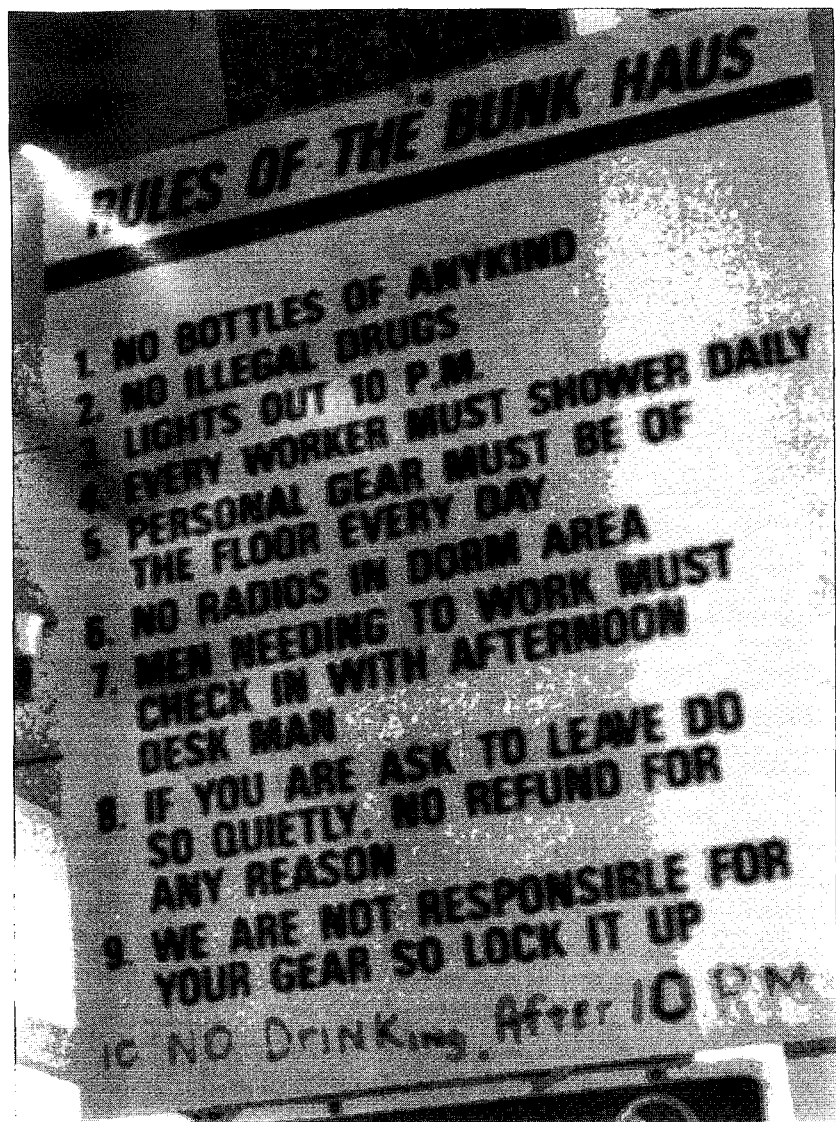
Firms that supply temporary manual labor make up a substantial economic sector. ILS alone has 20 branches in different cities. Nationwide, temporary service agencies employ over 600,000 manual workers. Socially useful as these firms are, one has to worry about their long-run chances for survival. When some observers encounter a company that makes a profit by hiring members of the underclass, they see workers being “exploited” and harmed by a company. The personal and societal benefits that flow out of the transaction are not always visible to them at first glance.

Many journalists succumb to this bias. For instance, in 1993 the *Dallas Observer* covered a crew of workers who erected temporary stands at a Dallas Cowboys practice field. The subsequent article, “A Dirty Job,” set out to show that the notion that temporary laborers are treated “fairly and with dignity” is a “fairy tale.” Yet in his minute-by-minute account, the reporter could not find any actual abuse or mistreatment. He built up his attack entirely with adjective and innuendo.

For example, he devoted four paragraphs to insinuating that laborers were overworked because they were asked to carry certain beams across a field, one beam to a man. How heavy were these beams? The reporter didn’t say, but he implied they were unbearable. When a worker carried one, he declared, its weight “squashed the carrier’s feet into the moist soil.” While we are almost ready to shed tears for the overloaded laborers the reporter inadvertently destroys the effect by shifting attention to a “40ish white guy” with “something to prove” who “put one beam on each of his shoulders, and carried two at a time.” So one beam per man was apparently a moderate load.

This hostile, straining-at-gnats coverage of the private employment scene compares strikingly with the way reporters cover government efforts. Just a few months before the story trashing the ILS appeared, the same paper ran a piece on a similar operation, the Dallas Youth Services Corps (DYSC). Like Industrial Labor Service, the DYSC takes unemployed, uneducated workers and gives them a minimum-wage job. Yet the DYSC received enthusiastic coverage, starting with the headline, “Building Up Hopes.” From beginning to end, the reporter gushed uncritically about this “program to give uneducated, jobless kids a chance.” While the workers in the ILS operation were portrayed as “dogs,” lacking any constructive plans for their lives, the same kind of workers in the DYSC operation were portrayed as nobly striving to better themselves.

The DYSC was presented as obviously superior, even though ILS helps 650 workers a day and is going strong, while the DYSC, faltering due to lack of funds and compassion fatigue, was serving a mere 18 clients. The difference between the two or-



ganizations that was most significant to the reporters, no doubt, was their professed motivation. ILS is built openly on the principle of self-interest. The DYSC—a money-losing operation that costs taxpayers and private donors \$500,000 a year—claims to be based on compassion.

Afflicted by a negative image and bad press, the temporary manual worker industry is also vulnerable to government attack. These firms suffer from the general burden of regulation and taxes that hinders all businesses, with every new tax or regulation, however well-intentioned, adding to costs and bringing them closer to unviability and shutdown. Last year, for example, ILS was compelled to close its hiring hall in Phoenix because Arizona workmen’s compensation taxes became prohibitively expensive. Even in Texas, these charges are almost crippling: ILS has to pay the state workmen’s comp system 51 cents per man-hour worked—a sum three times its profit margin.

Companies like ILS also face threats peculiar to their industry. Local governments’ zoning and licensing regulations make life difficult for labor halls. In Dallas, the city council adopted deliberately stringent licensing and location standards for hiring halls in 1991 and nearly destroyed the industry. These firms, opponents

## THE MOST IMPORTANT

### LESSON TO BE LEARNED

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claimed, had a "blighting effect" on local neighborhoods and were attracting crime and drugs. Real estate developers asserted that hiring halls made it difficult to upgrade the run-down parts of town where they were located. Anti-capitalist prejudice was also at work. The leader in the crusade against blue-collar labor halls was not an insensitive country club Republican but the council's foremost liberal Democrat, Lori Palmer. When day laborers came to a council meeting to demonstrate in support of the companies that give them jobs, Palmer never got the point. "They make a lot of money at your expense," she told the workers.

In the end, the city council was trumped by the Texas state legislature, which made the licensing of labor halls a state function and denied local governments the right to regulate them. The labor firms won this round, but it's not clear that in the long run they can withstand the steady onslaught from journalists and politicians convinced that any company making money by hiring destitute workers must, by definition, be harming them.

**T**he efficacy of selfish motives is of course a point that shouldn't be extended too far. A profit-making business is actually an expression of much more than raw self-interest. It exhibits many generous motives as well, partly because good business requires decency. But even beyond business requirements, simple generosity figures in many commercial decisions because businesspeople are human beings with ordinary impulses toward kindness and cooperation.

ILS manager Pat Tammaro, for instance, takes pride in having instituted the practice of serving hot soup to workers in the hiring hall on cold days. It would be difficult to prove that this move is economically justified, that the cost of the soup is recovered in added profits for the firm. Certainly Pat made no cost-benefit study of it. He did it because it was broadly consistent with the idea of attracting workers, because it was within his budget, and because, like most people, he wants to be kind to others. Most business decisions work this way. Solutions are not dictated one way or the other by economic necessity alone, so other factors like the everyday impulse to be kind and creative play a significant role.

Those who deny a social role for business overlook this. Hostility toward business grows out of thinking that businessmen only seek profits, out of imagining that they are unbridled, rapacious looters who will inflict any harm on others to make their hoard. Businessmen, for their part, often encourage this naive, monochromatic image by doggedly insisting that they are in business *only* for the bottom line. In truth, entrepreneurs have numerous aims. Yes, they want to make a profit, but they

also want to develop new ideas, to be respected, and to leave the world a better place than they found it. The success of labor firms in helping the underclass is by no means a simple victory for "self-interest." A company like ILS also exhibits aspects of benevolence.

But it should not try to be purely benevolent. Modern social policy has drifted into the view that unconditional giving is the way to help people in need: if people need food, give them food; if they need money, give them money. The lesson that commercial firms who work with candidates for the underclass could teach social reformers is the idea of *exchange*, the notion that the assisted person should give something in return for what he receives. Helping arrangements based on exchange avoid dependency, enhance self-esteem, foster social learning, and promote tolerance. A commercial firm automatically institutes these principles, out of necessity.

The great philanthropists and charity workers have long understood reciprocity. In operating his jungle hospital in Africa, for example, the missionary Albert Schweitzer carefully cultivated the practice of exchange by insisting that patients bring something of value—bananas, chickens, eggs, whatever—in return for the medicine received. He believed "the natives would value the hospital more if they had to contribute to its maintenance themselves according to their ability, than if they simply got everything for nothing."

In both the United States and England, virtually all the nineteenth-century poverty-fighters incorporated a *quid pro quo* philosophy in their efforts. Destitute men were asked to stoke fires; destitute women were asked to sew. Reformers like Octavia Hill in London repeatedly warned upper-class matrons against succumbing to shallow bursts of generosity. One-way giving, she taught, is a formula for ruining the very people you are trying to help.

This cardinal principle was thrown to the winds with the advent of government welfare programs in this century, and all Americans, poor and rich alike, are now suffering the consequences. We need to rediscover the principle of exchange and find ways of incorporating it into our efforts at uplift. One of the best ways to instruct ourselves on this point is to look at how commercial firms serve needy clients on a profit-making basis.





# Work

On December 31, 1998, Wisconsin's Aid to Families with Dependent Children program (AFDC) will be history. Its replacement? No one knows for sure, but some outlines have become apparent.

The wholesale welfare replacement now being formulated in Wisconsin will try and come to terms with the crippling twin problems of our current welfare system: illegitimacy and non-work. Wisconsin's program will combine strategies aimed at reducing births out of wedlock with strategies that foster responsibility through tough work requirements. A family benefit cap will be put in place to discourage further births while a household is on welfare. And benefits probably won't be paid to teens under 18, with group homes perhaps employed as a substitute. Individuals who still qualify for welfare under the new rules will have to go to work to receive benefits.

All of this is the handiwork of Wisconsin Governor Tommy Thompson, who is determined to replace his state's dole with "a self-sufficiency system—one based on independence through work." The election of Thompson as governor in Wisconsin back in 1986 surprised nearly everyone in the state. Previously a state representative from the little town of Elroy (pop. 1,500), Thompson's gubernatorial bid was written off by the Wisconsin media. Neither a smooth speaker nor especially

telegenic—he went through many razors in the campaign battling his five o'clock shadow—Thompson was considered too small-town and parochial. One Milwaukee reporter wrote of Thompson's "high-decibel, low-IQ rhetoric." Though not very eloquent, Thompson's common-sense message played well with Wisconsin's voters, and he pulled off a huge upset over sitting governor Tony Earl.

Thompson soon made reforming the welfare system his top priority. Says the governor: "The welfare system as it now exists is one of the root problems of the breakdown of the family which has caused the breakdown of community. Set up originally to be a temporary program, the only real radical change that has been made to it has been to make it permanent. A system that doesn't support the family or encourage work and doesn't require personal responsibility is bound to fail."

Thompson's first welfare reform was called Learnfare. Introduced in 1987, Learnfare required teenagers on AFDC to attend school regularly and complete high school or the equivalent. Failure to cooperate causes AFDC benefits to be reduced. Learnfare was opposed by everyone from the Milwaukee Roman Catholic archdiocese to the NAACP, who called the program punitive. Impressive results, however, soon quieted the critics. School attendance rose, and 8 percent of eligible teens lost benefits because they failed to regularly attend school in Learnfare's first year.

Thompson felt that Wisconsin's generous welfare programs were attracting individuals looking for a free ride. "Wisconsin was paying 40 percent more than what the same family would receive in Illinois," said Thompson. Taking office in 1986, Thompson reduced the level of AFDC payments by 6 percent, and then instituted a freeze. "It was sending a strong signal that we were not just going to keep throwing money at the problem," said the governor. By 1994, his seventh year in office, real, inflation-adjusted benefit levels had dropped by about 30 percent. Along with them, the Wisconsin welfare rolls had dropped by 21 percent, or about 20,000 households.

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# Welfare

## IN WISCONSIN

BY

WILLIAM D. EGGERS

AND

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