

**LABOUR MARKET INTEGRATION POLICIES
TO ENHANCE SOCIAL COHESION**

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Introduction: the challenge of dealing realistically with social relations in cities

Three steps forward in appreciating cities

1. Collectively – across the academic and policy communities of the OECD countries – we have come a very long way in our attitudes to cities since even the early 1990s. During the 1970s and 1980s we had rather got used to the idea that, despite the race to urbanisation across the developing and industrialising world, in mature societies modern communications were making major cities obsolescent as a form of development. Worse still, they were a drain on the rest of the society, since their chronic economic decline produced deepening concentrations of social problems in their cores, which required major commitments of public expenditure to avert open conflict. In particular action seemed necessary to reverse the continuing flow of business capital out of cities which pure market judgements warranted. Some of the real issues highlighted in this pessimistic view clearly remain. But, during the last decade and a half, general attitudes to cities, and the policy issues which they raise for OECD countries, have developed in ways that reflect three major steps forward in our understanding of their roles.

2. The **first** of these is simply a renewal of the perception that *many* kinds of city have the potential for economic success in the contemporary world, both on their own account and as key sources of strength for their national and regional economies. This may not yet be demonstrable for a majority of cities in developed economies (cf. Beauregard, 2004¹) and there are some old industrial cities for which it may never be true. But the key point is that what have always been the most distinctive characteristics of cities (as contrasted with smaller places) – namely their *density, diversity and openness to change* – are again being seen as the keys to success, rather than the roots of urban pathologies. To put it crudely, in a world where quality-based competitiveness, is vital for survival of the advanced economies (as Porter, 1990 so influentially argued), the more that places can embody these traditional urban attributes the better their prospects are expected to be (cf. Florida, 2004).

3. One loose end in this simple formulation is an ambiguity about what kind of density really matters in the contemporary world, and thus about what counts as a city for these purposes. The argument about, and evidence for, the resurgence of cities, *is* partly in relation to the traditional urban cores housing concentrations of advanced services, facilitating rapid and frequent face-to-face interactions for those people and activities where this is crucial. But it is *also*, and perhaps more importantly, about those extended metropolitan regions which during the second half of the last century increasingly took on a large proportion of the key roles of the major cities around which they formed. This is not simply a matter of housing the array of highly specialised labour pools on which such cities depend – or accommodating their support services – but also of developing a densely networked version of the urban economy in which many high order business functions (with less intense requirements for face-to-face interaction) thrive best in outer metropolitan locations with good communication links.

¹ At the level of administratively defined cities, rather than metropolitan regions, Beauregard defines resurgence in terms of a city having experienced at least one decade of population gain after at least two decades of population loss. Among the top 50 US cities he finds that a half have not yet experienced decline in these terms but, of those which had, just a half showed evidence of resurgence. One of the key differences which he finds between these groups is that the resurgent cities were less likely to have been dominated by manufacturing employment in the past than those which continued to contract.

4. The **second** key step has been the recognition that the degree to which particular cities can realise and sustain this potential for economic success has much more to do with making them function better than with simply sucking in more investment in the form of mobile firms. For those old industrial cities which have lost almost all their economic base since the 1970s and lack any substantial core of more general commercial and cultural assets on which to build, this inevitably sounds an unhelpful perspective. Without injection of something else as a going concern clearly nothing much is going to develop there. But the point is that, while necessary, such injections cannot be sufficient – though perhaps nothing will be for some or many of them. A simple empirical observation is that the differences between places which prosper and those which fail, even in crude employment terms, lies preponderantly in the growth performance of their existing businesses not the flow of establishments in or out (Cheshire and Gordon, 1998). Less simply, it has been very persuasively argued (from Porter, 1990 on) that the keys are to make the most in qualitative terms of the assets associated with density, diversity and openness, and to build around potentially distinctive sources of strength in a particular metropolitan region. For the local public sector this implies a degree of strategic selectivity combined with a strong focus on identifying and attending to areas of both market and governmental failure.

5. The **third** discovery, following on from this, is that the quality of social/institutional relationships of various kinds can be very important for urban competitiveness, alongside the more obvious economic assets. This has been a common thread in a range of otherwise quite distinct analyses of urban and economic systems during this period. Various these have highlighted institutions, social capital, untraded interdependences, networks of trust and the business milieux as key factors in the differing capacities of specific places to prosper in an increasingly competitive environment. The central shared argument is that there are a whole series of requirements for successful business, and especially for innovation and quality-based competition, which conventional markets cannot assure. In some circumstances many of these might well have been adequately provided within the framework of large corporations - but in a more flexible economy this can no longer be counted on. And, in any case, places which can provide these assets through distinctive forms of locally co-operative competition should be much less at the mercy of mobile capital, and of the potential for getting caught up in 'races to the bottom', than where local firms are each self-sufficient. In this context it seems to be the urban scale which matters most – though this may be narrowly or more broadly conceived depending on the particular activity involved. Hence this kind of argument provides some of the strongest reasons for believing that cities/metropolitan regions can now represent crucial assets (rather than liabilities) for their national economies.

6. Labour markets figure strongly in this picture since they involve some of the key cross-over processes between the economic and social dimensions of urban performance. Most obviously this is because, in conjunction with local education systems, they influence the particular configurations of human capital which are available locally (in terms both of specific skills and more generic, 'softer' qualities) and how flexibly these can adjust to shifting demands. But it can also be because labour mobility between related kinds of business is one of the key ways in which ideas are transmitted/cross-fertilised and networks of trust and co-operation are developed between firms.

Moving beyond the conventional wisdom

7. Taken together, these steps represent real progress not only in revaluing the potential of cities in developed societies, but also in developing a base for the kind of knowledge required to secure effective urban resurgence. But it is only a base, with a couple of major limitations which need to be first recognised and then addressed:

- it is practically useless unless we can translate it into a much more concrete appreciation of what particular levers are available to make a real difference to particular places – and have the will to use these over the long-run; and
- it may give a misleading impression that (sustained) success in both social and economic terms is readily achievable, without having to face up to hard choices.

8. The notion of ‘social cohesion’ - as a shorthand way of indicating all the various respects in which social relations within particular places can (increasingly) make a difference to their economic performance - may be more of an obstacle than a help to taking these further steps. There is a real temptation (within a new conventional wisdom about policy for cities) to see this as actually representing some single kind of quality which places can develop in order to simultaneously remedy the shortcomings of markets in terms of both social outcomes and economic performance (Gordon and Buck, 2005). At one level this may be helpful in building consensus, but at the same time it can obscure real and difficult issues, since within the urban policy arena uses of ‘social cohesion’ typically seem to refer to one or more of four quite separate elements :

- Fairness in the distribution of rewards/conditions of life;
- Connectedness with others and across urban society;
- Social order – and individual security; and
- Some sense of collective identity.

9. Clearly these do not necessarily go together and do not always fit straightforwardly with the dictates of competitiveness. For example one UK study reported that of six plausible channels connecting aspects of cohesion at a local level to a stronger competitive position for the cities concerned, only one (via educational outcomes) currently appeared to be of practical significance (Gordon, 2005). There are also radically different visions of what are the most appropriate combinations of connectedness and social order to secure urban competitiveness, with Putnam’s (2000) version of social capital implying more formal associations and a more recognisably suburban set of shared social norms than Florida’s (2002) tolerantly bohemian cities. In the literatures on urban environments favouring successful innovation, there are similar tensions, with contrasting models, each of which might actually be optimal for different types of product and business (Gordon and McCann, 2005). In the labour market too there are tensions between the values of flexibility and stability, with higher rates of turnover in more flexible (highly connected) labour markets possibly discouraging investment by employers in training activity (Brunello and De Paolo, 2004; Brunello and Gambarotto, 2004). There can also be major conflicts within any one of the elements we have distinguished – for example one group’s connectedness (or social capital), within the labour market for instance, may often actually generate disconnection/exclusion for others.

10. To recognise the relevance for economic as well as social goals of issues falling under the umbrella of ‘social cohesion’ (or of social capital or inclusion) is then only an entry point to understanding the issues that have to be faced and the kind of actions that do (or do not) have a potential to advance these goals.

1. Building an understanding of urban labour markets

1.1. The need to understand

11. The labour market is a really central arena for addressing competitiveness, cohesion and the ways in which these intersect at an urban scale, for three main reasons.

12. *Firstly* this is because paid work is the key source of both economic resources and of social status/identity in modern societies – for individuals, for households, and collectively for communities. The concentrations of deprivation characteristic of some areas within virtually all major cities very largely reflect direct unemployment, under-employment or the knock-on effects of these on the ability of residents to sustain long term domestic relationships (Wilson, 1987, 1997). The strength of this connection between work and social well-being has been significantly reinforced in the recent past through the development of active labour market policies. How urban labour markets function has thus become even more critical to addressing issues of inequality and social exclusion in cities.

13. In purely economic terms, evidence about the significance of variations in employment rates across whole metropolitan areas – which are the relevant units in this context – is somewhat mixed. Across all 65 of the leading metropolitan regions in OECD countries, varying degrees of underemployment are estimated to account directly for about 15% of the variation in levels of GDP per head². Achieving comparably full employment in each of them would thus significantly reduce disparities in output per head. If this took the form of a levelling *up*, overall output and income levels would be significantly raised. Very large differences would, however, remain because of the larger variations in labour productivity across these regions.

14. The picture is actually quite different in the three continental groupings of urban regions. In the Far East (*i.e.*, Japan/Korea) where productivity variations are proportionately very much greater, the effect of employment variations appears to be negligible. In North America also it is modest: removing disparities in under-employment between metro regions would only reduce those in GDP per head by 4% (since at metro regional scale rates of employment seem generally high and do not vary greatly). The situation is quite different in Europe, however, where varying degrees of underemployment appear to account directly for about 18% of the variation in levels of GDP per head across the major metropolitan regions. In fact on this measure of underemployment, among European metropolitan regions only the Dutch city-regions were doing better in 2000 than the least fully employed of the North American metropolises (*i.e.*, Montreal). Many old industrial and southern regions in Europe (and some in Japan/Korea) actually had rates of underemployment which were at least twice as great (4 times in the case of Naples). Being in or out of paid employment is, however, only a part of the issue, and variations in the quality of work that people can get access to, and are qualified to perform, in different cities will be picked up in productivity levels. These do appear to be significantly higher in those cities with less under-employment, though causal connections can be expected to run in both directions (*i.e.*, from higher productivity to fuller employment, as well as from fuller employment to higher productivity).

² These estimates are based on original data for 2000 from the OECD territorial database (as published in OECD, 2004, Tables 1.1 to 1.4), with adapted estimates of underemployment in each metro region including both open unemployment among labour force members and associated inactivity (representing concealed unemployment) among people outside the labour force. Estimates of the latter group were derived from regressions of gross activity rates on local employment rates (with coefficients separately estimated for the three 'continental' groups of regions) and country dummies (intended to capture national variations in age structure and cultural traditions with respect to work).

15. *Secondly*, in all the processes around paid work – recruiting, motivating, developing controlling – economic and social factors are deeply intertwined, so that information, expectations, identities, stereotypes and so on all play crucial roles alongside hard-headed calculations about productivity, turnover and pay. All of these might be seen as aspects of ‘social cohesion’, though the processes involved can be many and various, including: more/less appropriate patterns of socialisation in relation to employers’ expectations; prejudicial attitudes to particular ethnic, gender, class and/or age groups; real effects of past work (and non-work) histories and perceptions about these. There are obvious implications of such factors for the achievement of social goals, but also potentially for a city’s competitiveness via its ability to develop and effectively mobilise an appropriately skilled, motivated and flexible labour force.

16. Among the key contemporary issues here is that of effectively integrating members of all the various ‘new’ immigrant groups which have flowed into the major cities of OECD countries (especially those in North America and Europe) since the late 1980s. In Europe, at least, the earlier 1960s/70s waves of immigration had been to a substantial degree pre-managed, by combinations of major employers seeking direct recruitment and of their national governments. In the context of a more flexible, post-Fordist economy, and a world with more intra-national conflicts and much greater access to international communications, this has not been the case. And flows themselves are now much more diverse (culturally, ethnically and in terms of skills). The major cities are natural destinations for these kinds of movement, with London (for example) experiencing a *net* inflow from abroad of about 100 thousand per year since the late 1990s. In some cases this is explicable because of a city’s demands for specialist labour and the international orientation of its businesses. In others it has been boosted by the presence already of smaller scale communities from the same origins. But it also reflects generally attractive characteristics of their urban labour markets, including a relative openness and flexibility (reflected in higher turnover and recruitment rates) as well as the sheer scale and diversity of the employment opportunities which can be accessed there.

17. The conditions for integration should be good then, both from an economic and a social perspective, but some groups face particular obstacles to their full participation in the host city’s labour market. This may be partly because of specific issues about language or recognition of qualifications. But it is also because of the kinds of ethnically-related inequalities still facing established minorities, coupled with specific legal obstacles associated with arrival as an asylum seeker, ‘visitor switcher’ or other statuses without formal rights to work. For such reasons, among London respondents to the UK Labour Force Survey at the end of 2003, we find that fewer than 25% of working age migrants who had arrived since 1990 from the main origin countries for asylum seekers were actually in work, as compared with about 50% of those from other Third World countries and 75% of those from advanced economies (Gordon et al., 2004). These new international immigrant flows offer a potential elasticity of labour supply which is welcome in cities which have been losing population. And, significantly, Beauregard (2004) reports that US cities which have traditionally been open to immigration were significantly more likely to experience resurgence (in his terms) during the 1980s and/or 1990s. But it is far from clear that anything like the full benefits of such flows in labour market terms can actually be counted on to be realized in practice, without some attention to the various impediments currently standing in the way. This is still a grey area for research, but it illustrates the real importance of the intrinsically social dimensions of urban labour market operations.

18. *Thirdly*, the range, flexibility, openness and depth of urban labour markets are potentially the most crucial asset that cities have to offer, both to those who live and those who run businesses there. Analyses of urban economic performance find human capital availability as the most consistent predictor of, for example, population growth (Glaeser and Shapiro, 2001). Proportionately larger stocks of highly qualified workers in major cities with a specialisation in high order services might, of course simply reflect their capacity to draw in such workers for these well rewarded jobs from across

wide national and even international fields, rather than as an indicator of the cities own success in developing talent. Florida (2002), however, argues that their attractive power is not simply a consequence of the available opportunities, but rather reflects a capacity of particular places (notably the more diverse major cities) to offer the sort of open, tolerant environment in which creative people tend to thrive, both socially and economically. Glaeser too has shown that initial salary differences are insufficient to account for the drawing power of major cities for the highly skilled, arguing that (in addition to consumption opportunities) expected career progression, and hence faster earnings growth, is a central factor, which he attributes to the particular way in which big city labour markets function. The key is that such cities offer not only the kind of jobs in which ambitious workers can develop scarce skills but also - given the competitive nature of their labour markets - particular opportunities for workers to capitalise on these, by moving on from one employer to another (Glaeser, 1999; Glaeser and Marc, 2001). Firms might be expected to resist this, but for specialised jobs in service activities it may be impossible to prevent workers from acquiring such assets if they are to perform effectively. And firms choosing to stay in high turnover agglomerations will hope to gain as much (or more) as they lose from such mobility. In the UK, this model is consistent with the familiar characterisation of London as an 'escalator region', promoting upward social mobility among the qualified young workers that it draws in (Fielding, 1991; Buck et al, 2002), though comparable processes are not evident in other British conurbations. In more specialised cities, labour market processes of this kind may be crucial to the development of distinctive combination of skills required to underpin competitive advantage.

1.2. The obstacles to understanding

19. Urban labour markets are crucially important then for the development of cities, in ways that cut across the divide between social and economic processes - though they cannot be counted on to satisfy the various dimensions of 'cohesion' and competitiveness simultaneously. And policy-makers are clearly very well aware that they have to pay attention to them. But this is rather easier said than done, and practitioners as well as researchers have learned - both from study and from experience - that this is a very complex arena in which to operate effectively. There are basically two reasons for this, both of which involve rather contradictory characteristics of urban labour markets.

20. The *first* of these relates to their character as very powerful, but quite peculiar *markets*. On both the demand and supply side of these labour markets, people adjust strongly to all kinds of change, and interventions which ignore this are very unlikely to have the intended results. This can be the case at a macro-level, as when it is assumed that unemployment figures represent a simple measure of the gap between labour supply and demand, and thus of the scale of action (for example of job creation) required to fill that gap, or that part of it which is regarded as unacceptable, from either a competitiveness or a cohesion perspective. In practice, the hole always seems to take very much more to fill it than this calculus suggested, because other elements of supply and or demand respond to the intervention in ways that require more. One factor is that demand 'leaks away' to other areas (or perhaps more realistically, supply 'leaks in'), as in-commuters or new migrants respond to opportunities newly created by public interventions. Such adjustments have probably been going on all along, which is why the immediate 'gap', in terms of numbers unemployed, tends not to be nearly as large as the shocks which gave rise to it in the first place. But there may also often be asymmetries - of a seemingly malign kind - such that the 'adjusting' market responses operate more strongly in the upswing and in circumstances of expansion than in the downswing, particularly in the context of large numbers of involuntary job losses occurring in an already slack labour market. In this case, with a stronger 'leakage' being stimulated by the remedial measures than by original job losses it may well

take creation of several times as many jobs in a particular area to undo the local effects of a given original job loss (Gordon, 2003; Gordon and Turok, 2005).

21. Unforeseen consequences may also follow, for rather similar reasons, in response to more micro-level kinds of intervention. Thus actions to build economic capacity on either or both the supply and demand sides of the labour market may have much of their expected effects off-set through ‘displacement’. On the demand-side, businesses which are assisted to improve their competitiveness may well succeed in part through taking local market shares from established local enterprises. That is really a product rather than labour market issue. But similar kinds of displacement can be expected in the labour market, in response to supply-side action, as when training or employability programmes boost the capacities, and hence the competitive power of some, currently less-advantaged member of the local labour force. Because this is an intervention in an active market, not simply a step toward filling a (measurable and exogenous) ‘skill gap’ or case of ‘skill mismatch’ these work very largely through enhancing the competitive performance of some individuals within a labour market, which may be in large part local. Though the effects should not be actually zero-sum, since some real additions have been made to usable human capital, the fact is that some others’ competitive prospects will have been weakened in the process – unless in the particular context there is an especially elastic demand for this kind of labour. In the worst cases, particularly when supply-side interventions are effectively targeted at some specific segment of the labour market where demand is not particularly elastic, the effect may well be an almost zero-sum kind of ‘churning’ among the target group and their peers (cf. Sunley et al, 2001³). At best, the overall effects may simply be substantially less than hoped for. But in any case there is a need to take very serious account of the market context, and how supply and demand may reasonably be expected to adjust in a particular situation if there are to be realistic expectations of effects, and design of reasonably cost-effective initiatives.

22. On the other side of this contradiction is the fact that labour markets in general are quite peculiar kinds of market, because of the heterogeneity and self-consciousness of the particular commodity in which they deal. Employment practices have to be adapted, in one way or another (depending on circumstances) to the sheer difficulty of evaluating what capacities and productivity a worker will actually deliver and designing circumstances to enhance the chances of them doing so effectively and reliably. A consequence is – as Thurow (1972) pointed out long ago – that a large part of the labour market operates not on a simple model of ‘price competition’, where the cheapest satisfactory workers are hired (with floating wages), but rather on a version of ‘job competition’ where those who are perceived to be most suitable are recruited from among those responding to an advertisement offering a fixed salary.

23. This has many consequences, including a large role for stereotyping, signalling and subjectivity in key processes, and the importance of *quantity* signals in terms of the availability of discrete opportunities. But a particularly significant effect is the process characterised by Reder (1964) as ‘bumping down’, whereby in a slack labour market unemployed workers may effectively ‘price themselves back into’ a job not by renegotiating a particular wage, but by stepping down a tier in the market and successfully presenting themselves as the (qualitatively) best candidate for a job

³ This phenomenon has been widely noted in relation to the UK’s New Deal (programme) for Young People, but whereas Worth (2005), for example, presents the ‘churning trap’ as a consequence of insufficient value being added to the capacities of those passing through the programme, Sunley et al relate it more to a deficiencies in the local opportunity structure which also need attention. The competitive emphasis in the argument presented here – and developed in the next section – however, implies that neither the causes of the problem nor appropriate solutions to it are to be found within a specific sub-market, but are liable to reflect (qualitative) underemployment across large parts of a local (or regional) labour market.

which has always attracted a lower salary. This second best kind of adjustment process (from a neo-classical perspective, which would prefer flexible wages) effectively minimises the wastage of human capital during such times and places, by concentrating unemployment among those with the least desired talents at the bottom of the market, where a willingness to take wage cuts would not get nearly enough of them into work in a part of the market acquiring a gross excess of supply. The problem – beyond the inequity of the way in which suffering is distributed – is that it may be not nearly as easy to reverse this process when demand starts to recover, or when supply-side interventions have upgraded the capacities of a proportion of those at the bottom of the market. This is admittedly not a very sophisticated model of market behaviour, and too crude in its assumptions about wages, but it does actually capture some very important aspects of the issues facing those addressing under-employment in some core parts of metropolitan regions. In particular, it highlights the fact that there *are* crucial market processes which need to be dealt with, but not ones which can be understood simply in terms of price mechanisms.

24. The *second* tension stems from a very obvious diversity within urban economies and labour markets, both in terms of activities/occupations and spatially, combined with the fact (not always quite so obvious) that everything is connected to everything else, by a complex of indirect paths, as well as the more evident direct connections. Neither of the straightforward text-book approaches of:

- *either* treating ‘the’ labour market as though it was indeed fully integrated, effectively singular and homogeneous;
- *or* as though it comprised a set of identifiable and separable sub-markets for particular categories of job in particular ‘labour market’ areas

25. actually works in this context. So there is a need to understand on a more empirical basis quite how strong connections and differences actually are in particular cases and situations, and work through the implications of these.

26. Arguably, this is an important characteristic of all labour markets, but viewing them spatially does make a difference, since it becomes evident that:

- regional contexts have a major effect on outcomes;
- some places are more isolated or less well connected than others; and
- no sub-market is ever closed to commuting and migration flows, which are by no means fixed but rather respond to spatial shifts in the pattern of supply and demand.

27. Similar observations might be made in relation to the structure of occupational sub-markets, where there are similar relations of proximity, in the sense that it is easier for workers to switch between some sets of ‘nearby’ jobs than between others with more radically different requirements and entry criteria.

28. But in the context of big cities what is especially important – and indeed characteristic – is that there are extended areas across which there is a dense overlay of sub-markets. At the micro-level each individual worker and/or each employer might be seen as at the centre of a kind of sub-market (or field), representing the area within which they would expect to find a job or a recruit for their jobs. More realistically perhaps, this view might be applied to each residential neighbourhood and/or employment centre, with fields varying in size accounting to the types of job and worker involved. These fields *are* likely to represent the market context within which individual parties think they are

operating, and may reasonably be seen as reflecting spatial constraints on their individual ability to adjust to changes in the pattern of opportunities. But since, particularly in and around major cities, these fields overlap with a number of others, indirect effects arise, via vacancy (or displacement) chains – as when a job (in one field) is filled by a worker who has a current job (in another), leaving a vacancy to be filled by a worker who has a current job (in yet another), and so on, until a job in the chain is filled by a long term unemployed worker. As cities have turned into metropolitan regions with decentralisation of both jobs and people to centres beyond the original suburbs, the potential for such chains to diffuse the impact of supply or demand changes a long way from their origin has clearly become very great, at least in principle. The real test, as to how far afield this goes, has to be an empirical one, however – for example by examining the degree to which labour market outcomes in one place are actually determined by supply/demand shifts in the immediate vicinity, in the adjacent ring, or a whole series of others beyond that. In British studies, at least, the evidence from such analyses is that the effective labour market area can be very extensive, stretching well beyond the bounds of the city (or even OECD-style ‘metropolitan regions’), and in London’s case embracing most of South Eastern England (Gordon, 2003).

29. This kind of observation has some very obvious policy relevance - or perhaps more accurately some obvious implications about the irrelevance of particular kinds of policy seeking to relate urban economic development to social cohesion. Specifically, it implies that there may be little advantage in targeting job promotional initiatives specifically at those areas where improved employment rates are required, if there are less costly alternatives elsewhere within the extended metropolitan labour market area – since the impacts would be much the same. And, in a context where economic development initiatives are largely undertaken on a bottom-up basis, it suggests that the temptation for many areas, in and around cities, to each promote such initiatives to address local concerns over employment opportunities, may not simply involve wasteful forms of ‘zero-sum’ competition but actually produce very little advantage for workers in the winning areas (even if there are gains for local landowners). An understanding of this implication should make localities much more willing to co-operate in the pursuit of integrated economic development and employment policies across the metropolitan region.

30. This is actually far from a novel argument (see e.g. Cheshire 1979) and strong evidence in support of it has been available in the UK since at least the 1980s, without apparently having had much impact on either central or local policy. These continually return to an emphasis on the employment benefits of locally targeted regeneration projects. There may be a variety of reasons for this, possibly including the fact that the task of resolving the underemployment issue in major cities *seems* more tractable if it can be addressed on a targeted local basis. But there are two kinds of evidence which are commonly (and repeatedly) produced in defence of this approach. The first is that there are typically strong and persistent concentrations of under-employment (and associated kinds of deprivation) to be found in particular parts of cities, whether in actual ghetto areas, in other inner city localities, or in more peripheral social housing projects. Sometimes these are actually close to areas of major job loss, or maybe far away from areas of growth in relevant employment opportunities. But in any case the existence of such concentrations hardly seems consistent with the proposition that there are highly integrated metropolitan labour markets. Or, this would be the case, were it not for the fact that such integrated markets still produce very different outcomes for different types of people, and that those in the weakest position in the labour market tend also to be in the weakest position in the housing market, and consequently to be concentrated in quite specific areas with the kinds of housing to which they have access. Hence, unsurprisingly, studies have shown extremely high levels of correlation between the spatial pattern of underemployment within metropolitan regions and the residential distribution of those with characteristics – in terms of class, ethnicity, marital status, education, occupation, health, housing tenure etc. – which are known to be individually disadvantageous in job competition.

31. The immediate upshot of these arguments about general characteristics of urban labour markets is that neither text-book theory nor everyday experience (within particular parts of this system) is much of a guide to telling us either what is going to be a problem, or (still more) what is going to be effective by way of intervention. The reasonable implication is that policies need to be grounded in hard empirical research of a fairly sophisticated kind, grounded in the kind of general understanding of urban labour market processes that we have just outlined, and applied to specific local situations and the circumstances of different groups within these markets. But, at a more strategic level, there are already a series of quite clear policy-relevant conclusions that can be drawn from the more general analysis, and from existing local and regional studies undertaken within this framework. It is to a short summary of these that we turn in the next section of the paper.

2. Some general lessons from urban labour markets research

32. The very large body of policy-related research from the last decade or so on general labour market initiatives clearly has some implications at the urban scale. In particular active labour market policies (as reviewed by Martin, 2000) commonly require some implementation at the local level – ideally integrated in ‘one stop’ offices linking them to local opportunities. More specifically, such as the use of ‘profiling’ for early identification of new claimants at risk of longer term exclusion from employment, have particular, distinct implications in places with different employment structures and histories. Understanding their applicability to the particular challenges of making city labour markets work more effectively (whether in competitive or cohesive terms) and/or to resolving the particular problems of under-employment in some metropolitan regions requires a different kind of analysis, however, attending particularly to the kind of issues discussed in the last section. Here we shall concentrate on the broad implications of those, firstly in relation to some simple general principles, and secondly in relation to some of the kinds of action which are more likely to have a significant impact at this scale.

33. The first of the simple principles is that:

(a) Big problems normally have big (often long term) Causes and will take (at least) equally Big Action (often similarly long term) to resolve.

34. This seemingly banal piece of common sense has a particular relevance at the urban scale, because of the fact that spatial (sub-national) labour markets are characteristically open-labour markets, with the potential for strong adjustments to operate through migration and commuting. Unless there is an obvious immediate cause for disequilibria then, it is to be expected that significant disparities in employment outcomes between places (e.g. higher unemployment) reflect either an equilibrium differential produced by continuing long term differentials in competitiveness (e.g. in terms of employment growth rates) or the structural residue of large scale past changes the bulk of which had been absorbed through spatial adjustments. In either case, the scale of the forces which created the problem (and in the first case are continuing to reproduce it) are likely to be substantially greater than the currently visible problem suggests. If the current problem is really one of demand-deficiency, the required response in a spatial labour market is not going to be simply a one-off stimulation of demand (however large), which will eventually all get absorbed by migration and commuting shifts, but raising of the long term rate of growth (underpinned by a shift in competitiveness) relative to other parts of the national economy. If the current issue is one of structural unemployment – involving a larger part of the local labour force who are personally disadvantaged in competing for jobs, wherever they happen to be resident – as a residue of past periods of demand-deficiency, the corresponding requirement would be something like the maintenance of a full

employment pressure of demand for a broadly equivalent period. The point is that a serious approach to such problems at a metropolitan scale involves:

- uncovering the forces which have acted to create them, over whatever period they have operated;
- recognising that it is going to take an at least equivalent scale of action (maybe substantially more) to reverse their impact; and
- making an appropriate commitment to pursuing this on a continuing basis, and adopting realistic expectations both as to the likely scale of impacts and the period over which action would need to be sustained.

35. The temptation is to believe that ‘cleverness’ – the exercise of reasonable intelligence – can get round this. But where the basic problems are quantitative ones (e.g. shortfalls in labour demand or in relevant human capital) the most that can be hoped for on this count is avoidance of waste of resources.

36. A second related principle is that:

- (b) *Although problematic outcomes (i.e., symptoms) are commonly concentrated around specific sub-labour markets (among particular areas, groups and occupational categories) the basic causes will often not lie there.* This also follows from the expectation, and evidence, that in spatial labour markets adjustment processes are strong, but this time in a more local context (within metropolitan regions) where there is an even stronger presumption that internal disparities in supply-demand pressure ought to get eliminated. In the spatial case, where strong concentrations of under-employment are found in particular sets of localities within a metropolitan region, the most general explanation is that this pattern reflects social/structural unevenness in the labour market rather than geographical ones, with under-employment simply concentrated where the least advantaged/competitive groups live. These might in principle be exacerbated by local spatial externalities in the labour market, if (for example) residents in areas of concentrated unemployment were further disadvantaged by a weakened local access to informal channels of information about job opportunities. In practice, however, available evidence about such effects suggests that they are weak relative to the direct effects of individual characteristics as in conditioning labour market competitiveness. The implication is that the effective causes of strong spatial concentrations of under-employment lie not in the areas concerned, but in a combination of: disparities across groups in marketable human capital; discriminatory practices in the wider labour market; and shortfalls in the pressure of demand for labour at the aggregate level across the metropolitan region. Beyond this, the bumping down processes mean that inter-group disparities in competitiveness may also reflect wider forces, since (in the context of deficient demand) they serve to translate rigidities in mainstream labour markets into unemployment for groups at the bottom/margins of the market. In such cases it is unlikely to be effective to concentrate remedial action around these sub-labour markets, for example by increasing the efficiency with which they work.

37. Thirdly, the degree of connectedness of elements within metropolitan labour markets implies that:

- (c) *Targeting job growth or supply-side initiatives heavily on particular sub-labour markets etc. is not generally a solution to the ‘effort’ problem.* Targeting has been a very strong theme

within labour market policy initiatives in recent decades both in cities and outside, for a combination of good and less good reasons. Among these reasons has been the danger of substantial deadweight when public funds end up subsidising activities or placements which would have occurred in any case, or where they produce inflationary outcomes by enhancing demand in markets already experiencing capacity constraints. A rather more general consideration has been evidence that untargeted initiatives on any sizable scale have proved relatively expensive (in terms e.g. of cost per job) because effects get spread across markets in most of which there is no problem. An underlying belief is that, if there are problems of structural unemployment, it must be because there are groups and sub-markets which are effectively disconnected from the mainstream, in which case it should be possible to achieve proportionately greater effects (within affordable budgets) from initiatives by concentrating efforts and expenditure there. In the case of spatial targeting of demand-side initiatives, the counter to this is the evidence that the sub-markets of targeted areas are by no means disconnected, but rather leaky buckets, from which a very large part of the benefits get dispersed as most (worthwhile) jobs end up with (stronger) contenders from outside the area. In the case of targeting supply-side initiatives on particular groups in weak labour market positions, the problem is rather the reverse, that there are too few knock-on effects beyond the immediate low-end sub-market, with the major overall effect being to produce intensified competition for opportunities within that sub-market.

38. While all these principles tend to suggest (perhaps a bit negatively) that there are no easy options in dealing with under-employment issues in urban labour markets, the same lines of analysis do suggest that there are particular policy approaches which should be especially worthwhile (if not easy):

- i) *Equal opportunities policies.* Analyses of the incidence of unemployment within metropolitan regions, both across individuals and across areas, shows strong associations with many different individual characteristics, ranging between those which seem to be obviously related to productivity and those which seem not to be. At one extreme would be educational qualifications and (maybe) the skill characteristics of a past job. At the other extreme would be ethnicity which, when all such characteristics have been controlled for, seems likely to reflect the kind of prejudicial discrimination for which more direct evidence can still be found in experimental studies. Between these extremes lie a series of attributes, including factors such as (in the British case) marital status, gender, age, housing tenure etc., where the connections with productivity are unclear, and there is also a strong potential for prejudice to play a substantial part in the 'job competition' process. As Duster (1995) has argued, the significance of such factors seems to have been substantially increased with deindustrialisation, since in many service activities a worker's social identity seems to matter much more than it did in manufacturing. These factors are strongly associated with spatial concentration of underemployment, as well as with more fundamental 'cohesion' questions about fairness of allocation of opportunities. And, as was noted in the last section, there are important issues about the effective integration of new immigrant flows, which also underline the importance of a vigorous application of equal opportunities policies in metropolitan labour markets. The issues may, however, generally be as much of class and age as the traditional dimensions of ethnicity and gender, and certainly involve questions about the allocation of training and promotion opportunities as well as hiring and firing.
- ii) *Sustaining a strong pressure of demand across metropolitan regions.* There are two important points here. The first is simply that with effective integration of the sub-markets of more local areas, the scale at which the aggregate balance of supply and demand actually makes a real difference (even for those at the bottom end of the labour market) is no smaller

than that of the metropolitan region – and probably broader in some cases. The second point is that strong demand does not just directly involve a better use of available labour resources with less underemployment, but is also a condition for labour markets to operate effectively. Slack demand is the context which produces bumping down and the *progressive* concentration of underemployment (and thence effective exclusion from the labour market) among the weakest groups so long as it persists – a hysteresis. It also serves to discourage the mobility between employers which is the basis for metropolitan regions particular flexibility, and a major motivator for on the job human capital development.

- iii) *Minimising risks of large scale redundancy.* There is evidence of a substantial asymmetry in adjustment processes particularly in spatial labour markets. Specifically it appears that the effects of employment growth get most effectively dispersed, with availability of identifiable job opportunities and vacancy chains stimulating migration and commuting. Forced job losses, on the other hand, appear to produce the weakest adjustment responses, particularly when large and in the context of already depressed labour markets. The implication is that, other things being equal, job preservation can make a proportionately greater contribution to mitigating underemployment at a metropolitan scale than can stimulation of employment growth. All is not equal, of course, and there is a bad track record in several countries of efforts to save collapsing firms, in which good money ends up getting thrown after bad. Crisis responses typically make for bad policy. But outside the context of such extreme cases and situations, the principle is a good one, namely that reasonable actions to reduce the risks of possible future large scale job losses – particularly where these might be caused by governmental failure are more likely to be more worthwhile than efforts to boost employment levels.
- iv) *Promoting upward mobility at all levels in the workforce.* The point of departure here is the evidence that in the wake of periods of deficient-demand, the effects of bumping down may not rapidly get reversed, so that there is both a pervasive tendency to (qualitative) underemployment within the workforce and an overcrowding of entry-level sub-markets which slows re-absorption of the (quantitatively) underemployed. In order *both* to raise productivity and employment rates it is appropriate then to encourage movement ‘on up the car’ (as in a metro train with congestion around the doorways), rather than concentrating human capital development initiatives heavily on those currently out of work (to give them access to the ‘doorway’). In the highest segments of the labour market where vacancies are habitually filled from much wider labour markets, the case may be weaker, but in principle action to encourage upward mobility right through the occupational hierarchy are to be encouraged from this perspective. This argument complements the case which Nativel (2002) makes for broadly-based initiatives to ‘upgrade the skills of incumbents’ and ‘enhance movement up job ladders’ among the low qualified⁴. Her concerns are primarily with stabilising the position of individuals, both for short-term job retention and against risks presented by any future downturn in activity. The interest here is broader-based and more directed at the aggregate issue of how crowding of the lower tiers of employment can be reduced (which obviously has a bearing also on individuals’ chances of retaining jobs in a downturn. But much of her analysis of possible approaches and issues in promoting an upgrading strategy, and the relevance of the urban scale for implementation has direct relevance to this too.

⁴ In the exploratory phase of a current OECD project on ‘upgrading the skills of the low-qualified.

- v) *Securing adequate levels of educational achievement among the mass of the local population in relation to the requirements of worthwhile jobs in the local economy.* The relevance of formal educational qualifications to effective performance in a large proportion of mainstream jobs may be questioned. And, in the UK at least employers, who increasingly seem to emphasise their need for ‘soft skills’, are unclear about their importance for non-graduate kinds of job. But they are one of the few objective kinds of information readily available to recruiters, especially for younger people and those who have not already occupied particularly responsible positions. And, lacking at least some minimal level of achievement clearly increases individuals’ chances of being out of work by a substantial margin. In cohesion terms at least this is clearly an important priority among urban policies with labour market relevance, while below the level where jobs are filled from national labour markets, the stock of reasonably qualified locals is liable to be a significant competitiveness factor.
- vi) *Attending to specific instances of demonstrable and intelligible market failure.* This seems rather a catch-all category for a list of ‘particularly worthwhile’ approaches. But there is, firstly, a general point to recognise about the difficulty of judging in the context of real, diverse and interconnected urban labour markets where intervention would actually be worthwhile and appropriate – so the market failure test is a caution. However, secondly, there are situations in which a prima facie case of this kind can plausibly be identified, and potentially checked with local information. One such example involves the issue of who (if anyone) takes responsibility for the training and socialisation of high turnover positions in activities with relatively weak quality competition, as may (for example) be the case in independent tourist hotels in centres where there is little dependence at that level on repeat business. In such cases there are both competitiveness and cohesion cases to be made for some form of intervention (perhaps in this case via inspection/grading as much as a training initiative) to identify and counter these specific market failures.

Conclusion

39. The rediscovery that ‘cities matter’ for the economy, especially in a world of intensified quality-based competition, has clearly been linked to another rediscovery, about the interweaving of ‘social’ with ‘economic’ factors. A shorthand for this is to talk about a mutually supportive relationship between ‘social cohesion’ and ‘competitiveness’, though this begs a lot of questions about which particular aspects of cohesion (or competitiveness) are involved in particular instances, how strong the links actually are, and whether there are not hard choices of priority to be made among these. To apply these ideas usefully to urban policy questions – including those in the crucial ‘crossover’ field of the labour market – we need to work with clearer concepts and firmer models.

40. Urban labour markets are one of the key assets of cities (and particularly of successful ones) for reasons – including their flexibility and diversity – which also make them rather complex to understand. At least a basic understanding of the distinctive ways in which they function is vital, however, for urban policy responses to either economic or social concerns to have positive rather than negative effects. In particular these need to recognise how strongly markets are integrated, both spatially and structurally, within metropolitan regions. Recognising these characteristics does not make effective intervention seem easier, or suggest particularly ‘clever’ alternatives to a sustained commitment of effort in addressing key issues of underemployment – which are particularly evident in a number of the metropolitan regions of European member countries of OECD. The analysis suggests important limits in this context to the value of tightly targeted approaches, together with the lack of local employment advantage from uncooperative local development policies.

41. Emphasis on the interconnectedness of markets and the role of ‘bumping down’ in depressing labour productivity as well as employment rates points to at least one policy context in which competitiveness and cohesion objectives may clearly coincide, in prioritising encouragement of upward mobility across the whole labour force, as well as the maintenance of a high pressure of demand at the metropolitan region level.

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