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During the mid-1990s interest in workplace change turned to concern and even anxiety over signs that customary employment relationships were breaking down. One company after another downsized or reengineered costs, pressuring others to do the same to stay competitive. Secure jobs and predictable career paths were seen as relics of bureaucratic corporations too big and too rigid to meet the challenges of a fast moving economy. But in fact, employment stability is a relatively recent phenomenon, while the trend toward more subcontracting, contingent work, decentralized decision-making, and increased worker autonomy, is reminiscent of labor market conditions in the nineteenth century. The reappearance of less permanent forms of work indicates a weakening of the internal labor markets that emerged in the early twentieth century.

PRESSURES IN SUPPORT OF INTERNAL LABOR MARKETS

Internal labor markets are "formal arrangements for managing employees in large firms...that (have) buffered jobs from market pressures." [563] In *Internal Labor Markets and Manpower Analysis* (1971), Peter Doeringer and Michael Piore argued that internal labor markets developed for efficiency reasons. They encouraged the long-term attachment of employees so that firms could identify and promote good workers, invest in the development of needed skills, and reap the benefits of well-trained, loyal employees. The transaction costs of recruiting, negotiating rewards, and measuring and monitoring performance were reduced. Sanford Jacoby argued in *Employing Bureaucracy* (1985), that internal labor markets developed when reformers and unionists pushed to improve and stabilize working conditions and production planning, particularly in wartime.

This internal labor market system was based on the principles of scientific management and included narrow job descriptions, on-the-job training, extensive supervision, job security that increased with seniority, and standardized pay scales that ensured that shareholders, not employees, bore the brunt of business risks. Internal job ladders offered security and upward mobility in exchange for loyalty and performance. The arrangement maintained needed skills within the organization

PRESSURES AGAINST INTERNAL LABOR MARKETS

During the 1980s and 1990s, competitive pressures reduced the benefits of internal labor markets while increasing the burden of fixed costs. New accounting practices encouraged cost reduction. Deregulation, international competition and stockholder pressure squeezed profits, while a wave

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of leveraged buyouts left many businesses with high-interest debt. Changing consumer preferences called for shorter product development cycles and rapid obsolescence. This required flexibility and the ability to accommodate change, reducing the viability of standardization, bureaucratic decision-making, or long-term training trajectories. Unions, government regulators, and human resources theorists - advocates for labor market stabilization - lost influence, while employment regulation unwittingly stimulated evasive activity: for example, changing hourly workers to salaried status to exempt them from overtime pay.

Subcontractors, temp agencies, or employee leasing outfits took on more of the burden of compliance with labor and anti-discrimination laws. These agents also reduced hiring costs and expedited the search for appropriate skills, while the orderly progression to better jobs within the firm began to erode. With the spread of computers the information and control functions of middle managers diminished, and employee teams took on decision-making and monitoring functions. Unions, which generally negotiated systematic pay grades and seniority-based job ladders, were in decline. Rapidly changing products and technologies meant that skills could quickly become obsolete or inappropriate.

EVIDENCE OF CHANGE

Adequate data about the extent of these trends is difficult to obtain, but several studies indicate that firms are, in fact, relying less on internal labor markets and more on contingent work, and are contracting out work that could be done in-house. Over half the firms surveyed in one study had at least one high performance work practice, with work teams or quality circles the most common.[1] Such practices give wider responsibilities to workers, the need for layers of supervision is then reduced, and the system of narrowly defined duties and clear job ladders breaks down

In the early 1990s, many companies reduced employment without reducing output. As compared with earlier layoffs, this wave of "downsizing" affected older and more educated employees, particularly white-collar workers. Overall, permanent job loss rose because workers were not recalled after business cycle layoffs. Job tenure (length of time with one employer) for men seems to have declined - a trend most evident for less educated men and older white men who once had previously been well protected by internal labor markets. Tenure for women, however, increased because fewer women now quit their jobs to marry or have children.

Wage structures are also changing. Internal labor markets could insulate compensation from external market forces by relating pay to the firm's need to motivate employees and allocate skills. However, wages are becoming more linked to supply and demand for particular occupations. Inequality between occupations in the same firm is growing since some occupations will command a higher wage than others. Variance in earnings for individuals increased from the 1970s to the 80s. The payoff to working for one company for a long time is falling; workers who changed jobs frequently received almost the same increase in earnings during the 1980s as those who remained at the same job over ten years. A dramatic indicator of the shift of responsibility from employer to employee is the trend away from defined benefit pension plans, in which a retiree receives a predetermined benefit level according to years of

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service, to defined contribution plans in which employers contribute to each employee's retirement fund (often a 401K plan).

Internal labor markets maintained an implicit contract: security and predictability in exchange for commitment and performance. This important norm of reciprocity was broken when long-term service was no longer rewarded. Public opinion surveys report less optimism about personal success in the 1990s than in the 1960s. A sense of duty has given way to a view that work should be a source of personal satisfaction – though job satisfaction and commitment have both declined sharply. Downsizing has had profound effects on the morale of employees who remain with a firm, although firms often experience productivity increases and cost decreases because employees are afraid of being the next to lose their jobs. In contrast, top level mangers report satisfaction with the results of restructuring and seem unconcerned with declining morale.

CONTRADICTIONS AND SOCIAL IMPLICATIONS

Recent trends in employment relations present several contradictions. Teamwork requires "idiosyncratic skills that both demand training and are difficult to replace." [591] A firm investing in training wants employees who will stay and return the benefits of their higher skills to the company; however, attachment to firms is weakening. Employees prefer to develop skills that are transferable to other firms and employers want employees who bring skills with them when hired, but worker mobility discourages employers from providing such skills. Furthermore, now that many work activities are carried out by cross-functional teams, simple entry-level jobs and clear job ladders that offered new workers a place to start are disappearing. Temp work now serves as the point of entry for many workers who seek permanent employment.

Low morale has not yet caused a decline in productivity because workers fear job loss, but problems will emerge in the long run, especially when reduced commitment is coincides with team-based organization and less supervision. One solution is to rely on peer pressure to enforce work effort; another is to peg compensation even more closely to performance. Over time expectations will adjust to changed conditions, but this will have wide social implications. Workers will have to take on more responsibility for their own training and career development. If income continues to become more variable, financing patterns and lifestyle decisions may change. College education and home ownership, which require steady income to repay long-term debt, will be difficult to achieve.

Ultimately, society as a whole will need to make available education and training opportunities if employers are reluctant to make these investments and if employees are unable to pay for them. This poses a question of distributive justice since employers are the ones gaining the most from the changes in the workplace. Tighter labor markets could tip the balance in favor of employees, but rising volatility in wages, corporate structures, and morale still presents a serious challenge for firms, workers, and society at large.

Notes

1. See P. Osterman, "How common is workplace transformation and how can we explain who does it?" *Industrial and Labor Relations Review,* 39(1994): 173-88; cited by Cappelli, 574.

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