



“Summary of article by Theirry Noyell: Toward a New Labor Market Segmentation” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 195-198

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"In a market environment where both small and large firms are confronted with far greater competition than in the past, fewer firms can now hide behind oligopolistic arrangements. In contrast, the very nature of skills is increasingly at the basis of segmentation, at least for the segmentation between core and skilled contingent workers. Where skills are somewhat generic and demanded by a broad array of firms, workers who can supply them increasingly are likely to be organized on a contingent basis; where skills remain highly firm specific, their supply is likely to remain internalized among a group of core workers. A major issue is how fast these two groups are growing relative to the third group, low-skilled, contingent labor." [223]

Advanced economies are undergoing a transformation, due in part to the rapid growth of service industries compared to the rest of the economy. The transformation is also linked to the reorganization of labor markets into a dualism between "core" and "contingent" workers. An earlier form of dualism in labor markets, where some employees had long-term security and access to internal career ladders while others did not, was based on sharp differences between the oligopolistic and competitive sectors of the economy. Today the dualism is no longer defined by economic sectors, but by the roles and skills of particular types of workers within a company -- with a growing tendency for each firm to have both core and contingent employees.

CHANGING LABOR DEMAND

Most important in changing the structure of markets has been the intensification of competition, due principally to deregulation and rising internationalization of the economy. Each of these factors has tended to make industries less oligopolistic. One example is the department store industry; the shift to new, suburban locations and the rise of discount department stores pried open retail markets to a host of newcomers. Another is consumer banking, which lost its monopoly over small savers as mutual funds and other investment vehicles became available.

In many industries, market concentration continued based on the reality of economies of scale and scope, but the removal of oligopolistic or regulatory barriers (which had restricted prices, products, or geographic service areas) intensified competition. New information technologies, especially computers, have transformed the demand for labor by raising the potential for developing new products and for reorganizing the division of labor. Examples include bank credit cards, airline reservation systems, and parcel tracking systems. "Production workers are

decreasing in numbers while the remaining labor force is increasingly needed either to sell, to assist customers, or to develop new products, new markets, and new strategies. The upshot is considerable upskilling and a shift toward activities that demand high levels of technical expertise." [215]

Another important factor is "vertical disintegration," which means that firms stop doing some functions internally and begin buying them as needed on the open market. This has occurred in large part due to intensified competition. As companies lose their monopolistic "rents" this can no longer afford to pay more to have a job done internally instead of buying it externally. An example is the U.S. motion picture industry in which studios used to have long-term contracts with everyone involved in the process, but today negotiate contracts for each project. Increasingly, successful firms specialize in particular market segments, buying related functions externally.

The use of contingent labor -- a labor force that employers can use flexibly with respect to fluctuations in product or service demand -- has grown rapidly. There are four principal forms: seasonal part-time, permanent part-time, temporary, and independent individual contracting. Temporary work has grown most dramatically, from 20,000 people employed by the temporary agency industry in 1956 to over six million people who now work as temps for some part of a given year. While the roots of expanding contingent work are largely in the industry changes discussed above, changes in labor supply have also played a part.

CHANGING LABOR SUPPLY

Although about one-quarter of part-time employment is involuntary (with the percentage slightly growing in recent years), part of its growth is due to changes in labor supply, including more women and school-aged youth in the workforce, more two-earner families, and higher educational levels among employees. Between 1965 and 1985 the fraction of working-age females who were employed rose from 36.7 to 54.5 percent. In addition, between 1965 and 1985 the proportion of all adult households with two wage earner rose from 47 to 70 percent. Industries such as department stores and supermarkets introduced short-hour shifts, of four or fewer hours daily, to accommodate women with children, older workers who want to work shorter hours, and youth

Rising educational attainment has made the labor supply much more varied in terms of levels and types of education. For example, of people between ages 25 and 29, in 1965 only 20 percent had some college education, while by 1985 this figure had risen to 45 percent. An external labor market that can provide workers at different levels of preparedness allows firms to avoid internal training costs and dismantle internal job ladders. This has made it more difficult for people with less formal education, such as clerks, to rise gradually to higher ranks in corporations.

BEYOND INDUSTRIAL DUALISM

Labor markets have been restructured into three principal segments: core workers, skilled contingent workers, and low-skilled contingent workers. The number of core employees -- those with permanent, secure jobs, who enjoy opportunities for mobility within the firm -- has fallen

greatly. Today it is often restricted to only a select number of professional and managerial workers. Other specialized professional professionals are commonly hired on a contingent basis.

A second, rapidly-growing group consists of skilled contingent workers, including such occupations as nurses, accountants, lawyers, systems analysts, and computer programmers. Such workers are often driven by their own professional goals rather than criteria set by one company. This may lead them to choose a variety of job assignments in order to improve their professional expertise. Turnover in such jobs is quite high, and the firm's commitment is short-term. Employers have less and less of a role in organizing this part of the labor market, while professional organizations and employment agencies take up the slack.

Finally there are the low-skilled workers. Contingent hiring arrangements for such employees has always been a part of the labor market. But in recent years there has been a rapid decrease in the number of low-skill workers who are included in the internal labor market, as companies shift them to a more insecure status, and a larger proportion have only part-time employment.

DIFFERENCES FROM EARLIER SEGMENTATION

From the 1920s to the 1960s a dichotomy emerged in the U.S. economy between a "core" of mostly large firms and a peripheral economy of mainly small employers. The core, including many giant industrial corporations, tended to be oligopolistic, where profits and employment were relatively secure. Peripheral firms faced more intense competition and volatile demand for their products. The labor market reflected these conditions, with workers having far better long-term prospects for higher wages and promotions than those employed by small companies.

Where skills are somewhat generic and demanded by a broad array of firms, workers who can supply them increasingly are likely to be organized on a contingent basis; where skills remain highly firm-specific, their supply is likely to remain internalized among a group of core workers.

In recent years the burden of unemployment has fallen most heavily on low-skill workers. It may simply be that U.S. society is eliminating such jobs faster than society can cope. But it can also be argued that the failure to deal satisfactorily with the mismatch between job requirements and the skills of workers reflects problems in our educational and training systems.