"Summary of article by Bennett Harrison: The Dark Side of Flexible Production" in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 123-126

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

"Summary of article by Bennett Harrison: The Dark Side of Flexible Production"

For almost three decades America has been experiencing a surge in wage polarization. There is now a consensus among economists that since the late 1970s, the lowest wage and highest wage Americans have been growing in number, while the proportion of those earning middle level wages has been falling. Early assessments of this trend by conventional economists incorrectly attributed wage polarization was to a rise in the market value of college education during the 1980s. The wage gap occurred from a decline in wages among the non-college educated work force, not from a growth in the college wage. The puzzle then remains: What is causing the long-term toward increased earnings inequality?

This paper argues that businesses' pursuit of "flexibility" to adapt to heightened global competition is creating a new dualism that is proliferating low wage, insecure employment. This dark side of flexible production is responsible for much of the wage polarization in the United States.

The New Dualism

Segmented or "dual" labor market theory was developed in the late 1960s and 1970s to examine the organization of work. A reconceptualization of this theory can go a long way in explaining flexible production and growth of wage inequality.

Dual labor market theorists saw the economy as consisting of a primary and a secondary labor market. The primary labor market is dominated by large, vertically organized, somewhat oligopolistic firms that earned above average profits and gave out above average wages. Within these firms exist vertical career ladders or internal labor markets. These ladders were quite secure and came with comfortable benefits. Outside of the big firms lay the secondary labor market, those working for smaller firms where wages were lower, benefits were poor or nonexistent, and on the job training was hard to find.

Today the businesses are embarking on vertical disintegration, downsizing, outsourcing, and the formation of networks of companies that span across sectors and nations. This new era is breeding a new dualism, between insiders and outsiders of the "lean and mean" flexible firm. On the inside are full-time year-round jobs equipped with health insurance, paid vacations, organizational learning, and opportunities for upward mobility. On the outside are smaller firms that act as suppliers to the lean ones. A growing number of jobs on the outside are involuntary

Reprinted with permission from Island Press. © 2000

part-time or part-year work that comes with low wages and few benefits. The growing number of those on the outside is contributing to the hourglass of wage polarization.

The Erosion of Employment Security and the Growth of Contingent Work

A major distinction between the new and old dualism is the fact that even the high level jobs in the larger firms are no longer secure. This shrinking of internal labor markets is one of the sources of growing wage polarization.

The corporate search for flexibility and cost savings is driving firms to externalize much of the skills training that was performed in the internal labor market. Recent research has shown that there has been a great deal of job growth in the best jobs and the worst jobs, but that middle level jobs have been on the sharp decline. At the same time, the quality of jobs also declined. These jobs are characterized as low wage, low benefit, low union covered, involuntary, part-time positions. Much of this latter work is "contingent" labor, including part-time, temporary, and contract work.

By 1988 contingent labor is estimated to have employed roughly a quarter to a third of the civilian labor force. Contingent work grew three times as fast as employment as a whole between 1982 and 1988, reaching somewhere between 30 and 37 million by the latter year. This has had a big effect on personal well-being. Between 1979 and 1989 the share of the private sector work force covered by pension plans fell 7% and the share of workers with health insurance fell 8%. Are managers consciously creating this dual labor market? In the United States the answer is yes. In a survey of representatives of 521 of the country's largest manufacturing, financial, and nonfinancial services corporations, a significant portion said they used labor as a deliberate "contingent staffing alternative."

Dualism in the Nike Production System: A Case Study

Nike provides an example of how this new dualism can exist even within the boundaries of a single firm. While Nike is a US corporation, not one of the 40 million pairs of running shoes that are annually produced by the company are manufactured in the US: everything is subcontracted overseas.

Nike operates in a context of concentration without centralization: production is dispersed but under the control of managers in a relatively small area. Nike connects very low paying unskilled production jobs with high skilled R&D jobs, mass production with flexible automated technology, and First World with Third. The first tier of the Nike system, the design and raw material operations of Nike, consist of "developed partners," "volume producers," and "developing sources". The developed partners are in Taiwan and South Korea and work with R&D personnel in Oregon to design the high-end footwear. The Asian partners then farm out the manufacturing to low-wage subcontractors. The volume producers are large vertical companies with leather tanneries etc, that sell to Nike and other producers on more of a spot basis. Developing sources are producers in Thailand, Indonesia, Malaysia, and China. These are the lowest-wage operations in the Nike system. The second tier of the Nike production network are the material, component and subassembly sources. The more skills that are required

Reprinted with permission from Island Press. © 2000

in these operations, the closer they are to Oregon. However, as the human capital and sophistication of those subcontractors in the first tier is developed, Nike sees these operations shifting to the outside as well.

Nike managers tout this form of organization. Their combination of high-tech R&D in Oregon and semi and unskilled labor overseas allows them to bring products quickly to market and make huge profits. Nike's success derives from its managers ability to set up and manage a dualistic system -a dark side of flexible production. While Nike's low-wage workers are overseas, similar patterns of dualism exist within the U.S. labor force. The division between insiders and outsiders reinforces the long-term trend toward wage polarization.

The High Road or the Low Road to Long-Run Economic Growth?

Managers governing networks like Nike have the power to play one group in a network against another. This can weaken the bargaining power of labor unions, making it more difficult to organize workers and pressure companies for higher wages, benefits, and security. Firms that build their foundation on cheap labor can be seen as the low road to company profitability and growth.

If firms continue along this road, both macro and microeconomic problems of serious consequence could arise. On the macro level, very low wages at the bottom end of the distribution could begin to be problems with aggregate demand if the workforce is not able to consume from its current income and the demand is not offset by government deficits or household saving. Aggregate demand did sustain despite growing inequality in the US during the 1980s, but partly because of the accumulation of $2 trillion in added government debt and $500 billion in additional consumer credit. On the micro level, firms that rely on undervalued labor will get the wrong signals about the future. Relying on cheap labor can keep inefficient producers and obsolete technologies competitive. If such firms are competing with more sophisticated firms, their only option will be to further reduce wages to stay alive.

Low road firms scrimp on training, move operations to low wage havens in the Third World, outsource work, rely on older capital equipment, and pit suppliers against each other. Part of the reason why firms are taking the low road is the weakness of the American labor movement. The fraction of private sector workers in unions is at a pre-1935 low of 12 percent, and no alternatives for worker protection are practically in sight. Another reason is the sheer suddenness with which the US economy opened its international trading system, leaving oligopolistic firms to shed weight quickly. In addition, continually volatile exchange rates caused many firms to abandon revenue enhancing strategies to boost profits and to turn to cost reduction instead. Finally, interest rates have also been a factor.

It is time to hit the high road, where reinvigorated labor unions could demand higher wages and working conditions, and demand that companies invest in skills training and new technologies. A combination of technology, training, and technical assistance can increase the productivity of the national economy, and with it the standard of living of the mass of the population.

Reprinted with permission from Island Press. © 2000