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“Restructuring Employment: Flexibility versus Security” by Laurie Dougherty

The nature of work has been changing at a fairly rapid pace (compared to the long reach of human history) since the early days of industrialization. It was a specific quality and intensity of change associated with the last quarter of the twentieth century that brought us to call this volume *The Changing Nature of Work*. Among the many kinds of changes documented in this book, this chapter highlights the changes that lend the topic a sense of urgency and imply a radical shift in the structure and quality of employment. We have been living through a time of collective anxiety about the nature of work. This anxiety ebbs and flows with the rhythm of the business cycle and differs from one part of the world to another, but its general focus is on the problems of instability and inequality.

INTERNAL LABOR MARKETS

The period of time immediately following World War II was marked by prosperity and rising expectations in the United States, as well as rapid material progress in many other parts of the world. One cornerstone of this era was the expectation that a job should be a long-term, well-ordered relationship between a worker and a company. The employee would receive a secure livelihood and the prospect of growth, in income at least, and in personal fulfillment at best. The employer would receive a loyal employee whose productivity would improve over time as he or she became more versed in the particular skills and qualities needed by the firm. While economic theory described the employment relationship as a labor market that matched up buyers and sellers of skills and effort, many employers and employees operated within sets of rules and customs that governed movement from one job to another and kept levels of compensation within certain bounds.

During the mid 1960s, after extensive field studies at a wide variety of establishments, and review of other research, Peter Doeringer and Michael Piore estimated that 81.4% of U.S. workers were involved in *internal labor markets*, their term for these rule-based models of employment.¹ Their interviews and observations revealed several patterns for both blue collar and white collar jobs. In manufacturing firms unions often acted as the vehicle for negotiating the rules of the workplace, rules that would typically define the tasks to be performed, establish performance standards, set pay scales, and determine procedures for filling vacancies. In non-

unionized settings, rules were set by other mechanisms, but fulfilled similar functions: to set up an internal system for allocating human resources.

Employees joined the firm at what Doeringer and Piore called “ports of entry” which were exposed to the external labor market, that is, the economic forces of the larger society. Once the employee gained entry, he or she would progress according to the particular rules and customs of the organization. In unionized settings, seniority often governed eligibility for more desirable positions. In white collar settings, demonstrated competence and ability to learn new skills enabled employees to move along well-defined career paths. Craft and professional workers might not have long term relationships with particular enterprises, but the craft or profession organized procedures for allocating work and establishing compensation.

Although internal labor markets are protected from the direct effects of economic forces, they do not operate in isolation from them. Over time the set of rules and customs adjust to general economic conditions. More to the point, there are efficiencies that give internal labor markets economic viability:

particularly reduction of the costs of recruitment, screening, and training for firm-specific skills.

While Doeringer and Piore approach internal labor markets as an analytical construct within which to investigate problems in the economic theory of labor markets, Sanford Jacoby takes an historical view of the same organizational form. His focus is on “the bureaucratization of employment, since many of the features that define good jobs - stability, internal promotion, and impersonal, rule-bound procedures - are characteristic of bureaucratic organization.”²

In Jacoby’s view the well-structured employment relationship emerged out of a struggle between production-oriented managers on the one hand and unions, social reformers and personnel managers on the other hand. Production managers saw workers as adjuncts to the goal of getting the product out. They wanted the flexibility to adapt quickly to changes in technology and demand. The second group, although coming from a variety of motivations, had a common desire to stabilize the employment relationship. Unions wanted to improve the lives of their members. Reformers had humanitarian sympathies with working people (if not with unions), and fears of radicalism. They also saw opportunities for themselves within bureaucratic institutions. Personnel management brought the reform movement into the firm along with a “middle class belief in the necessity of market intervention, the beneficial effects of rational administration, and the power of the educated expert to mediate and mitigate social conflict.”³

Although not all enterprises had well-developed internal labor markets or bureaucratic structures capable of producing good jobs and well paved career paths, it was the essence of the American Dream that with luck and pluck anyone could find a port of entry to long term employment and upward mobility. Beginning in the late 1960s and early 1970s, although Europe and Japan and other countries in Asia were rapidly catching up to the level of material prosperity evident in the U.S., the American Dream began to fade. As suggested in the Introductory Essay to Part IV, the reasons for this are complex and controversial. The competition from countries recovering from World War II and later from developing countries was one aspect of this change.

Eileen Applebaum and Ronald Schettkat offer an explanation based on a dynamic endogenous to economic development with evidence from a statistical analysis of cross-country data on specific industries in industrialized countries. Applying the methodology of W.E.G. Salter⁴ who, in 1960, found a positive correlation between high productivity industries and employment, they find that this correlation turned negative for most industrialized countries by the 1980s. They offer the explanation that in the earlier period of positive correlation, growing productivity leads to lower prices for industrial goods which generates greater demand leading to more employment. They call this the virtuous circle which is the defining characteristic of an industrial economy. At some point, however, markets become saturated and price elasticities change. People are wealthier (on average) and have accumulated durable consumer goods so they are no longer so quick to purchase something just because the price drops.

ONE DAY'S FOOTNOTE IS ANOTHER DAY'S HEADLINE

In a footnote to *Internal Labor Markets and Manpower Analysis*, Doeringer and Piore commented that: "General practitioners, street 'hustlers,' free-lance writers, some nonunion craftsmen, and the like operate primarily as unorganized independent entrepreneurs. The best illustration of an unstructured occupational labor market is that of harvest labor."⁵ Twenty years later, in 1991, Doeringer was principal editor of a research report: *Turbulence in the American Workplace*, turbulence marked by "downsizings and wrenching readjustments ... lost jobs and even more widespread career disruptions."⁶ *Business Week* proclaimed in a 1986 headline: "The Disposable Employee is Becoming a Fact of Corporate Life."⁷ The term "contingent work" became part of the vernacular.

Public and scholarly interest in the nature and extent of contingent work spurred the U.S. Bureau of Labor Statistics to supplement the February, 1995 Current Population Survey (CPS) with questions about contingent work. One analysis of this data conducted by the Economic Policy Institute and the Women's Research and Education Institute is summarized in this section. Because "contingent work" is often used loosely in the media, sometimes broadly including part-time work, and sometimes narrowly associated with temporary agencies (which is only one form of contingent employment), the analysts who prepared this report used the term "non-standard" work to describe a set of specific employment arrangements:

- *Temporary Help Agency (Temps)* - respondents worked for agencies which supply workers to other companies on an as-needed or short-term basis.
- *On-Call* - respondents were in a pool of workers called to work as needed, even if for days or weeks in a row. Some examples are substitute teachers or construction workers hired from a union hiring hall.
- *Day Labor* - respondents found work by "waiting at a place where employers pick up people to work for a day."
- *Self employment* - respondents were self employed as, for example, shop or restaurant owners.
- *Independent Contracting (Wage and Salary or Self Employment)* - respondents "obtain[ed] customers on their own to provide a product or service." Independent contractors

include free-lancers and independent consultants and may have employees working for them.

- *Contract company* - respondents worked for “companies [which] provide employees or their services to others under contract.” Examples include security or landscaping services or computer programming.
- *Regular part-time* - respondents worked for a wage or salary for less than 35 hours per week and were not in any of the above categories.

The categories of *non-standard* work defined here comprised 29.4% of the total workforce in 1995, including 34.4% of all women workers and 25.4% of men. Some workers, particularly independent contractors and self-employed men can earn more than workers with similar education in similar standard jobs and some women prefer non-standard employment in order to have the flexibility to fulfill responsibilities at home. However, in general, non-standard work is concentrated in low-waged industries or occupations, and often offers inferior pay, benefits and job security even to workers with similar education performing similar work to those in standard work situations.

While the EPI\WREI report is based on data collected from individuals, Katharine Abraham’s article, also summarized in this chapter, focuses on employers and their motivation for using non-standard work, particularly with respect to temporary workers, production subcontracting, and contracting out for business support services. Taking her cue from analysts of internal labor markets, discussed above, she uses the term *market-mediated work* to describe an employment relationship that takes place outside of the firm. Rather than finding or developing skills from within their own employee base, firms look to external labor markets when they experience a need for flexibility in staffing or wages, or a need for specialized services.

Peter Cappelli, in an article summarized in this section, points out that the global race for competitive advantage has a contradictory impact on the nature of work. On the one hand there is a search for improved performance which requires the reinforcement of internal, firm-specific attempts to build a committed, loyal workforce capable of agile and intelligent response to evolving technologies and fast moving global economic forces. On the other hand, there is a frantic search to cut costs and to achieve agility by reducing commitments to the workforce in favor of hiring skills on an as-needed basis.

Part IV explores the first horn of this dilemma, the search for high performance through new technologies and forms of work organization. This section explores the second, what Bennett Harrison calls “the devolution of internal labor markets and the erosion of employment security,”⁸ what Abramson calls “the growth of market-mediated work arrangements,” and the EPI\WREI researchers call non-standard work. As Cappelli points out, and the historical view of internal labor markets confirms, this growth of market-mediated work is a matter of rebirth rather than the emergence of an entirely new phenomenon. Market-mediated work at the end of the twentieth century looks similar to employment relationships of the nineteenth century: labor contracting, casual labor, industrial homework, movement from one employer to another in search of better prospects. But it also takes on new institutional forms - the temp agency, employee leasing, the headhunter, the high tech independent contractor. Surveying some of the

same territory in another article summarized in this section, Paul Osterman comes to a less sharp conclusion. He sees the system of internal labor markets as fraying at the edges, but still intact.

Thierry Noyelle does find the growth of less stable forms of employment to be a matter of some concern and calls this a new form of labor market segmentation. He draws on theories of labor market dualism (or segmentation) which paralleled the discussions of internal labor markets of a few decades ago, investigating why some kinds of work (and workers) remained outside the walls of bureaucratic firms with their protective employment relationships. Some jobs were low paid, required few skills, and offered little or no job security. While the early literature on dualism focused on industries (e.g. fast food) or occupations (e.g. janitors) as the site of “secondary” labor markets, Noyelle turns to the employment relationship as the point of departure for a new form of segmentation. The detailed analysis performed by EPI/WREI on the 1995 CPS data collected by the U.S. Bureau of Labor Statistics, seems to bear out the concept of segmentation. Their findings indicate that, with some exceptions, non-standard work is inferior to standard work in pay, benefits, security, and prospects for advancement.

One of the ways the trend toward non-standard forms of work renders work less secure is by distancing the worker from the ultimate source of labor demand through intermediaries like temp agencies or contract firms. This can confound the question of who is responsible for compensation and conditions of work. Manuel Castells and Alejandro Portes relate this process to the shadow world of the informal economy. Some aspects of the informal economy are shadowy because they deal in illicit activity, like drug trafficking or prostitution. Other aspects are simply marginal, like scavenging. A large part of the informal economy is linked directly to the formal global economy; however, it remains shadowy because it takes place beyond the reach of accountability, keeping few records and evading regulation of hours, wages, health and safety. Firms in the formal economy, even wealthy transnational corporations, search for lower costs and the flexibility to respond to fluctuations in demand. This drive generates a chain of work arrangements on an ever more casual basis: for example, a large factory will outsource a component to a vendor who will contract for smaller parts; those contractors will piece out work to smaller groups or even individuals. At the farthest reaches of the chain, people often work in their own homes or in fly-by-night sweatshops with no guarantee of work beyond what is immediately available.

Patricia Fernandez-Kelly and Anna Garcia also investigated the relationship between the formal and informal economies, finding that Hispanic women in the U.S. often work at the end of the contracting chain, working for low pay under uncertain conditions. It is interesting to compare here a summary from Part III on globalization, in which Hernando Gómez Buendía describes the particular political conditions which generated a large informal sector in Latin America. Because relatively few Latin American workers are employed in technically advanced, high productivity industries, and few are eligible for state-provided welfare benefits, a large pool of workers engages in low productivity employment, often under unregulated conditions.

Industrial home work is the final link in this chain of informalization. Unions have traditionally opposed home work because, among other reasons, it is difficult to regulate. However, the emergence of new technologies which can transmit information from one work site to another

make home work a viable option for many white collar jobs. Kathleen Christensen examines this, also increasing, form of home-based work. Most home workers are women, many of whom work at home in order to be available to children or other dependents. With well thought out guidelines concerning performance, hours, health and safety, and child care, home-based clerical work can be a reasonable option.

Martin Carnoy and Manuell Castells also look toward guidelines for coping with the changing nature of work, but on a scale which encompasses the broad range of changes in the relationship between work and economic security at the end of the millennium. They stretch the agenda beyond the particular nexus of firm and employee to consider implications for families, communities and society at large. They envision a society which organizes its resources around learning in order to impart to workers the up-to-date skills needed to meet the challenges of new technologies and rapidly shifting economic conditions. At the same time, a learning society would allow individuals and families to reconfigure their allocation of time to work, leisure and learning in order to adapt as conditions change and opportunities arise or fade. Carnoy and Castells' report to the OECD offers the hope that families, communities and the state will be able to build new bases of economic and social support in the face of employment insecurity.

Notes

1. Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*. Lexington, MA: Heath Lexington Books, 1971. The following discussion draws on Doeringer and Piore's analysis of internal labor markets. The 81% estimate is on page 42 and derived from *Introduction to Labor Economics* by Orme W. Phelps.
2. Sanford M. Jacoby, *Employing Bureaucracy -Managers, Unions, and the Transformation of Work in American Industry, 1900-1945*. New York: Columbia University Press, 1985. Introduction. Quote is from p. 2.
3. *Ibid.*, p.7.
4. W. E. G. Salter, *Productivity and Technical Change*. Cambridge: Cambridge University Press, 1960. (Cited in Appelbaum and Schettkat)
5. Doeringer and Piore, *op. cit.*, p. 41. (Chapter 8 does contain a brief discussion of employment situations with little or no structure or truncated mobility ladders.)
6. Peter B. Doeringer, ed., *Turbulence in the American Workplace*. New York: Oxford University Press, 1991, p. vii
7. Micahel A. Pollock and Aaron Bernstein, "The Disposable Employee is Becoming a Fact of Corporate Life," *Business Week* December 15, 1986. pp. 52-54
8. Bennett Harrison, *Lean and Mean - The Changing Landscape of Corporate Power in the Age of Flexibility*. New York: Basic Books, 1994. P. 199.