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# Are Career Jobs Headed for Extinction? / Career Jobs are Dead / Reply: Premature Reports of Demise

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# Benefits for the Workplace of the Future

Edited by Olivia S. Mitchell, David S. Blitzstein, Michael Gordon, and Judith F. Mazo

Pension Research Council
The Wharton School of the University of Pennsylvania

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# Chapter 8
# Are Career Jobs Headed for Extinction?

Sanford M. Jacoby

Academics and journalists tell us that we are currently witnessing a historic event: the demise of career-type jobs. Richard Sennett, the sociologist, argues eloquently that the surge of corporate downsizing is the signal occurrence of our postmodern age, with ramifications far beyond the labor market. As careers condense, so do our time horizons and relationships. What Sennett (1998) calls "no long term" is a pervasive force eroding our moral strength. "No long term," he says, "disorients action over the long term, loosens bonds of trust and commitment, and divorces will from behavior."

Many Americans remain anxious about job security. The share of employees who say they are frequently concerned about layoffs has risen from 12 percent in 1981 to 37 percent this year (*Daily Labor Report* 1999). Politicians are adept at tapping into these sentiments, as in the 1996 presidential campaign, when Patrick Buchanan excoriated executives for taking huge salaries while laying off thousands of workers. President Clinton responded predictably: he organized a conference and invited employers to the White House to discuss corporate ethics and responsibilities (Mandell 1996; Mitchell 1996).

The notion that corporations have responsibilities to employees is hardly a new or radical idea. Its roots lie deep in the American past, dating back a century or more when companies first began systematically to provide for their employees' welfare. The movement was known as "welfare work" or "welfare capitalism." It was not unique to the United States, but its popularity in this country was uniquely American. Welfare capitalism shaped our nation's risk-sharing institutions — everything from "fringe" benefits to Social Security to career employment — the same institutions whose future is being questioned by Sennett and others (Jacoby 1997).

Yet institutional arrangements have changed much less than Sennett's "no long term" would suggest. Put bluntly, the welfare capitalist approach remains in place. Career-type employment practices — an amalgam that

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economists term "internal labor markets" — are still the norm in the labor market and employers continue to shoulder a variety of risks for employees. None of this is to deny the labor-market turbulence of the past fifteen years. The mixture of market and organizational principles that structures the employment relationship now gives more weight to market factors, especially in managerial positions. There also has been a change in risk sharing, with employers transferring more of the burden to employees. However, these are changes of degree, not of kind. They do not constitute a phase shift but rather a reallocation of responsibilities within a stable institutional structure. This chapter discusses the extent of change in recent years and analyzes the prospects for welfare capitalism's future.

## The Crisis of Welfare Capitalism?

During the past twenty years, modern welfare capitalism has experienced its most critical test since the Great Depression. Starting in the 1980s, a series of shocks hit the economy. Heightened competition, rapid technological change, and corporate mergers led to layoffs throughout American industry. In the late 1970s and early 1980s, it was blue-collar industrial workers — often unionized — who bore the brunt of permanent job loss. Since the late 1980s, it has been white-collar, educated workers who have experienced the sharpest increases in permanent job loss. Less-educated workers still have the highest job-loss rates, but their rates have fallen since the early 1980s. Hence the gap separating the job-loss rates of males with a high-school education and males with a college education narrowed by more than half between the early 1980s and the mid-1990s.[1] Companies that had never experienced a major layoff — firms like IBM, Kodak, and Digital Equipment — now jettisoned thousands of white-collar employees.

What is significant about these recent cuts is that they are occurring during a relatively tight labor market, unlike previous postwar layoffs that were keyed to the business cycle. Also, recent downsizing disproportionately affects educated professional and managerial employees, a group not previously targeted for layoff. The layoffs were — and are — a shock to those employees who believed themselves immune from job loss. Middle-level managers found that the elimination of their jobs was often the chief goal of industrial "restructuring." At large diversified companies, a combination of mergers, new information technology, and work reorganization reduced the need for headquarters staff. Fully 85 percent of large multinational corporations report that they have reorganized their headquarters since 1990 (Conference Board 1998). Those who survive downsizing are being offered a different employment contract. Instead of employment security in exchange for loyalty, organizations are proffering a "new deal" that provides higher pay in return for broader skills and a tolerance of change (Herriot and Pemberton 1995; Cappelli 1999).

Meanwhile, there has been an expansion of nonstandard employment: jobs that are temporary, part time, or contractual. In 1997, around 20 percent of all employees held nonstandard jobs. (The self-employed accounted for another 10 percent; Kalleberg et al. 1997, p. 9.) There is a stratum of nonstandard workers (such as consultants working on contract) who are well paid. However, most of these workers are likely to be paid a low wage, and they are one-sixth as likely to receive health and pension benefits as those in standard full-time jobs. In fact, much of the decline in health insurance coverage since 1979 has been the result of cutbacks for temporary and other peripheral workers. Coverage has also declined for some of those holding standard jobs, notably less-educated males (Farber and Levy 1998; Kalleberg et al. 1997; Farber 1997b).

Accompanying these changes has been a new ethos of market individualism, especially in places such as Wall Street and Silicon Valley where there is intense competition for skilled workers combined with a rapidly changing knowledge base. These workers — predominantly young and educated — have grown skeptical not only of welfare capitalism but of government, unions, and other large institutions. Believing that they must have a broad range of skills to succeed in today's labor market, these workers expect to spend no more than brief stints at any single firm. They ask only that the employer ensure their future employability by providing learning experiences that can be added to their resumes. Less concerned with job security than the generations who were touched by the Depression, they see themselves as masters of their own fates. They resemble nineteenth-century craft workers, who treasured their autonomy and hedged their labor-market risk with a diverse set of skills.

These changes have led to a widespread sense that the institutional structures erected over the course of the last century are tumbling down. It is hard not to feel that way when no less than the American Management Association issues a book entitled *Corporate Executions,* whose subtitle is "How Corporate Greed Is Shattering Lives, Companies, and Communities" (Downs 1995). But reports of welfare capitalism's demise are exaggerated. We are not moving to an economy made up only of short-term jobs, indifferent employers, and disloyal employees. Mid- to large-size corporations continue to pursue employment practices that are sheltered from the momentary vicissitudes of the market. It would be a vast exaggeration to say that long-term employment is dead or that all jobs henceforth will be casual positions. "No long term" is hyperbole. "Less long term" is not as catchy but far more accurate.

It is a human tendency to believe that one lives in an exceptional era, fundamentally different from earlier periods. Many people today — including businessmen, academics, and government leaders — think that information technology is creating a "new economy" with accelerating innovation and productivity growth. However, economic statistics show that productivity

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growth today actually is slower than it was during the first two decades after World War II (Kurtzman 1998: 88).

Just as there is a certain amount of hype attached to rhetoric about the new economy, there is a tendency to exaggerate how much the labor market has changed in recent years. The big change, as mentioned, is the fact that companies are laying workers off during a prosperous period, with layoffs targeted at white-collar employees. Hence employees today bear more risk, including a greater risk of layoff. But there are still plenty of career-type jobs for educated workers, and employers still indemnify employees against many kinds of risk.

To understand the paradox of continuity amid change, it is important to recall the distinction between stocks (our endowment of existing jobs) and flows (the jobs being created and destroyed in the current period). Just as in the distinction between the large national debt and the smaller annual deficit (or surplus), we sometimes forget that stocks tend to dwarf net flows. Moreover, another important fact is that net flows are composed of two enormous intersecting streams: job "deaths" (such as downsizing) and job "births" (new jobs) (Davis and Haltiwanter 1992). Despite downsizing, the U.S. economy has been adept at maintaining a high birth rate of new jobs, many of which eventually will become long-term positions. In what follows, several types of evidence are marshaled in support of these claims, including data on employee tenure and mobility, new job creation and new job quality, cyclical factors, and on employee compensation.

## *Tenure and Mobility*

Take, for example, the data on employee tenure, one indicator for gauging the prevalence of long-term or career employment. Tenure is not easy to measure. There are problems in controlling for the effect of the business cycle and in using cross-sectional as opposed to panel data. Also, there are biases that arise when individuals round off their self-estimates of tenure. Nevertheless, recent studies consistently find only a slight drop in the overall prevalence of long-term jobs. In the 1980s there was little change in aggregate job stability (job retention rates), while in the first half of the 1990s there was a modest decline in stability, particularly for long-tenure workers (Diebold et al. 1997; Neumark et al. 1998).

For men ages 35–64, the share employed more than ten years with their current employer fell from 50 percent in 1979 to 40 percent in 1996. The sharpest tenure declines occurred in managerial and professional-technical occupations (although managers had and still have the highest probability of being in long-term employment relationships). However, during the same period there was an increase — albeit slight — in the share of those employed in long-term positions in service occupations and industries. Partly for this reason, female tenure has shown a different pattern: For

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women aged 35–64, the share employed in long-term positions rose moderately between 1979 and l996 (Farber 1997d). While the rise in female tenure is partly due to changes in women's career patterns (they are less likely to quit for childbearing than in the past), it is important to remember that employers are responding to women's growing desire for stable, career-type positions by providing them with jobs of this kind.

The unadjusted data for the period 1983 to 1998 show similar trends. For males over 25, the percentage who worked for their current employer for ten years or more fell modestly from 38 to 33 percent; for women, the percentage increased from 25 percent to 28 percent, nearly canceling the drop in male tenure. In service and retail industries, median tenure rose slightly between 1983 and 1998; in manufacturing and transportation industries, median tenure declined slightly.[2]

What about data on employee separations (layoffs, dismissals, and quits)? Even if the amount of time people remain on their jobs has not changed much, it is possible that workers are experiencing less security. This could be due to higher levels of involuntary job loss as a cause of separations. Also, it could be reflected in lower levels of voluntary mobility. Unfortunately, there is no consensus on this issue; different data sets tell different stories. The Displaced Workers Survey focuses on involuntary job loss (job loss due to plant closings, position abolished, slack work, and other forms of layoff). The survey shows a slight increase in involuntary job loss in the 1990s compared to the 1980s, with most of the increase driven by job loss for "other" reasons, the nature of which is not clear (Farber 1997a). Data from the Panel Study on Income Dynamics (PSID) paint a grimmer picture, with a steady weakening for male workers — but not female workers — of the negative effect of tenure on the probability of being dismissed. (That is, long-tenure male workers stood a greater chance of dismissal; Valletta 1997.) However, another panel study, the Census Bureau's Survey of Income and Program Participation (SIPP), shows stability from the mid-1980s to the mid-1990s in aggregate layoff and discharge rates. The probability of permanent layoff declined for young (18-35) and middle-aged (41-55) workers, while rising sharply for workers in the 56–60 age bracket.[3]

The SIPP data on voluntary mobility (quits) exhibit little change since the 1980s, meaning that layoffs are neither inhibiting quits nor promoting them. Survey data show the same thing: of those employed over twenty hours per week, there was no change between 1977 and 1997 in the proportion who say they will seeks new jobs with other employers in the coming year. Workers, in other words, are neither more nor less inclined to hop jobs than twenty years ago (Bond et al. 1998; Bansak and Raphael 1998).

Data on geographic mobility provide corroborating evidence. People who change their residence often change their jobs, especially when a move is out of state. Richard Sennett's protagonist, a high-tech venture capitalist, moved around the country four times in twelve years, leading Sennett to

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lament "the fugitive quality of friendship and local community" caused by new career patterns. In the suburbs where today's employees reside, "no one . . . becomes a long-term witness to another person's life." But is it really the case that Americans are more mobile now than in the 1950s, the heyday of the Organization Man and the classic bedroom suburb? In fact, they are not. Cross-state geographic mobility rates actually are slightly lower in the 1990s than they were in the 1950s, when communities and workers allegedly were more stable.[4]

In short, the data indicate a very modest decline in aggregate job stability in the 1990s, with much of the effect concentrated among long-tenure males in managerial and professional occupations. The underlying stock of jobs, however, is still heavily composed of career-type positions. Indeed, as the population continues to age, it is likely that job tenure levels will rise across the labor market. Focusing on net flows over the past fifteen years, we see a drop of 1 to 8 percentage points in the proportion employed over ten years with the same employer; focusing on stocks, we see that nearly one-third of the adult labor force in 1998 was employed in long-term jobs, rising to one-half for men aged 45–64. "Long-term employment relationships" says economist Henry Farber (1997: 26), "remain an important feature of the U.S. labor market."

## Deaths and Births

If one identifies the U.S. companies with the largest absolute net job losses since 1990, the list contains many familiar names. Near the top are Sears (down 166,000 since 1990), AT&T (down 155,000), and IBM (down 113,000). Other major losers include General Motors, General Dynamics, Digital Equipment (DEC), Kodak, Mobil, and Xerox.[5] Job losses at these blue-ribbon companies send a message that absolute job security no longer exists. Nevertheless, not all jobs are in peril, nor is modern welfare capitalism a relic of the past. Despite laying off thousands of workers, many of these companies continue to offer career employment and, in some instances, have been rehiring employees almost as quickly as shedding them. AT&T, which took a major public relations hit three years ago when it announced plans to eliminate 40,000 jobs, has had a net reduction of 20,000 jobs since then because of its new hires (Silverstein and Maharaj 1999).

Much of this is common knowledge. What is less well known is the extent to which employment has been reshuffled in recent years, either within industries (from unprofitable companies to rapidly growing ones) or between industries (from mature to expanding sectors). There has been a slew of companies whose headcount grew steadily in the 1990s. European and other critics of the U.S. employment "miracle" scoff at this new job creation, arguing that it is concentrated in sectors offering low-quality jobs (Freeman 1998). In fact, several of the companies with the largest absolute employment

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growth since 1990 either offer relatively low-quality jobs — such as Marriott (up 194,000) and McDonald's (up 91,000) — or they are purveyors of temporary workers, like Kelly Services (up 172,000) and Robert Half (up 117,000).

However, the gainers also include companies offering stable, career-type positions. Those situated in expanding sectors tend to be newer companies that have not yet become household names. For example, the following companies each created at least 40,000 jobs since 1990: in financial services, Morgan Stanley and Norwest; in health care, Genesis Health Ventures and Sun Healthcare; and in entertainment, Disney and Viacom. Some of the better-quality job gainers come from the same industries as those on the losers list. Thus while Sears shrank, its competitors — like Dayton-Hudson, Home Depot, Lowe's, and Wal-Mart — added over 700,000 jobs. In the communications industry, AT&T contracted but SBC, MCI, Worldcom, and Motorola added many more jobs than AT&T cut. Gains by EDS, Intel, and Seagate surpassed losses at DEC and IBM, while even some chemical companies — unlike Kodak — managed to add considerable numbers of new jobs, including Praxair, Merck, and Eastman Chemical (once a division of Kodak).

These successful companies put enormous effort into transforming new recruits into company men and women, both in the way they think and the skills that they possess. While the new jobs do not provide the kind of iron-clad security that some employees, especially managers, once could expect, nevertheless these jobs are far from being short-term positions. Take, for example, Lowe's, a chain of home improvement stores. Lowe's is very similar to what Sears Roebuck was like in its heyday. The company has grown rapidly, adding 43,000 jobs and hundreds of new stores since 1990. Twice listed as one of the country's top one hundred employers, it offers career jobs and a stock purchase plan for all of its employees, who own 25 percent of the company. Lowe's competitors — including Home Depot and Wal-Mart — similarly pride themselves on their low employee turnover rates. Wal-Mart, currently on the top one hundred list, promotes from within and invests heavily in employee training, as does Home Depot. With new jobs like these, median tenure levels will rise in years to come.[6]

To find a parallel to the labor market of the 1990s, one has to go back seventy years. During the 1920s, the unemployment rate was low and new jobs were rapidly being created. However, the health of the aggregate labor market masked some painful shifts. One factor fostering job displacement in the 1920s was a high rate of investment in labor-saving plant and equipment, which gave rise to a new phrase, "technological unemployment." Another factor was sectoral dislocation. Employment was shifting from blue-collar to white-collar jobs; from manufacturing to services; and within manufacturing from older industries likes steel, shoes, cotton textiles, and railroad equipment to newer industries like electrical goods, chemicals, and

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food processing. The rate at which workers left the industry in which they had been employed more than doubled in the 1920s over the rate that had existed between 1899 and 1914 (Jacoby 1985). During the Great Depression, contraction of these newer industries was less severe and recovery more rapid than average; they ultimately were the industries on which the postwar economy was based (Bernstein 1987). However, the 1920s were, despite the sectoral shifts, a decade of growing, if unevenly distributed, prosperity. All of this should sound eerily familiar — absent, one hopes, the stock-market crash that brought the decade to a close.

## *Job Quality*

What about the quality of today's new jobs? We can assess job quality using proxy measures such as real wage growth and full-time status. One study finds that in the early 1980s there was a slight deterioration of real wages on new jobs relative to old jobs. Since then, however, relative real wages have been stable. While the less educated suffered sizeable real wage declines, that pattern occurred in both old and new jobs. Moreover, new jobs of the mid-1990s fell into the overall wage distribution in much the same way as in earlier years (Farber 1997a). Thus the evidence is not consistent with the claim that the new jobs being produced by the U.S. economy are predominantly low-wage. Wage inequality is pervasive and not the result of inferior new jobs (Jacoby and Goldschmidt 1998).

Whether a job is permanent or full time is another dimension of job quality. Temporary jobs have experienced rapid growth in recent years, faster than other jobs. However, while growth has been rapid, it started from a small base. Currently less than 2 percent of the workforce is employed on a contract basis or works for temporary help agencies. One reason for the growth in temporary positions is employer reluctance to hire probationary employees who might have to be dismissed if unsatisfactory. With dismissal costs rising, employers prefer to use temporary help agencies to screen persons suitable for career-type positions. (Temp agencies rarely fire unsatisfactory workers; they simply stop calling them.) That is, the growth in temporary positions is, at least in part, a complement to, not a substitute for, standard full-time employment (Autor 1999).

As for part-timers, some 21 percent of workers are employed part time. That figure is the same as in the early 1970s. Moreover, for the period since 1980, there is no evidence that new jobs are more likely to be part time than old jobs. Bear in mind that around 80 percent of part-timers are in those positions voluntarily — they are not seeking full-time jobs — and some have a significant stake in the companies they work for (Kalleberg et al. 1997; Segal and Sullivan 1997; Lester 1998).

Growth of nonstandard jobs has leveled off recently. As a share of the labor force, such employment actually declined slightly since 1995. One

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explanation for this is the recent tightening of labor markets. For those whose nonstandard employment is involuntary — as is the case for many temporary workers — such jobs are viewed as an inferior alternative to regular full-time positions. With the labor market heating up since the mid-1990s, fewer workers are finding themselves having to take these transitional jobs. To put this another way, labor shortages are forcing employers to assume greater risk when filling positions (U.S. Bureau of Labor Statistics 1997; Farber 1997a).

## Cyclical Factors

Labor markets are affected not only by structural and secular changes, but also by cyclical factors, such as the unemployment rate. Cyclical and secular components were difficult to disentangle when labor markets were stagnant, as was the case for much of the period since the mid-1970s. However, the recent drop in unemployment has revealed the limits of a purely structural perspective. Unemployment rates are lower now than at any time since 1973, when the monetary authorities first became obsessed with fighting inflation. In the future, we may well look back at the downsizing of the 1980s and 1990s and see more clearly its relationship to cyclical factors.

Low unemployment has two effects. Directly, it fosters the internalization of labor markets, as employers seek to retain scarce labor. Indirectly, as economist Michal Kalecki first observed fifty years ago, low unemployment enhances the bargaining power of employees and their ability to get employers to shoulder risks for them (Kalecki 1971). When labor markets are slack, power is on the employer's side; when unemployment rates are low, the tables are turned and employers are more inclined to accommodate worker demands. Indeed, it is revealing that Kalecki published his essay during World War II, a time when labor was scarce and unions strong. During the hundred-year span from 1870 to 1970, career employment practices did not grow steadily. Rather, they widened and deepened most rapidly in periods when unemployment was relatively low, such as the late 1880s, early 1900s, and the four major wars of this century. Conversely, there were reversions to more market-oriented employment relationships during slack periods like the 1890s and 1930s. What happened from the late 1970s through the early 1990s, then, was the confluence of relatively slow growth, a loose labor market, and structural shocks arising from deregulation, globalization, and sectoral shifts. Historical evidence suggests that any tightening of U.S. labor markets will — both directly (to retain scarce labor) and indirectly (via bargaining power) — shift employment practices back in the direction of insulation from market forces. We can call this the Kalecki effect (Keyssar 1986).[7]

Presently, we again are witnessing the Kalecki effect, as unemployment plummets. Tight labor markets force employers to shed labor more carefully and make it easier for workers to find new jobs. That is one reason why

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there has been so little outcry over recent layoffs. Over two-thirds of workers permanently displaced from full-time jobs between 1995 and 1997 have found reemployment in full-time jobs. An additional 15 percent are working part time or at home, and 15 percent left the labor market. The total reemployment rate has risen since the mid-1990s, while wage prospects have improved. Workers who were laid off in the last two years are much less likely to be suffering earnings declines than workers laid off in the early 1990s: 38 percent experienced earnings declines in the past two years, versus 55 percent five years ago. However, for some workers — especially the less educated — job loss was and still is the source of large and persistent earnings losses.[8]

Managers and skilled workers are experiencing especially high reemployment rates. One headhunting agency recently reported that managers at companies announcing layoff plans often find themselves with several job offers in hand before the layoffs occur. Hence while organizations today are somewhat flatter than before, they still have an enormous appetite for managers and management remains a growth occupation. The proportion of managers in the workforce actually increased over the course of the 1990s, as new employment growth exceeded the volume lost to downsizing (Gordon 1996).

As companies scramble for help, they are luring new recruits with offers of traditional career opportunities. As a recent article put it, "employers are going to great lengths to persuade employees that they want them to stay for years" (*Business Week* 1998). Employers are dusting off and reintroducing old-style employee development and training programs intended to reassure managers and professionals of their prospects. Citibank, for example, despite recent layoffs, expects its workforce to grow in coming years. So it recently established a formal career development program for 10,000 managers. The company's vice president for human resources said, "We want to make people feel that they have a long-term career with us" (*Daily Labor Report* 1998: C17).

The response to tighter labor markets suggests a swinging pendulum. Employers today want careers to be less "boundaryless" and more organization-centered. The problem, of course, is that this runs directly counter to what today's educated young workers think is the route to career success: regular changing of employers to gain experience and to signal ambition. Recently, I spoke to the vice president for human resources of a *Fortune 500* company, who was lamenting the difficulty of attracting and retaining young managers and professionals. I reminded him that people in their 20s and early 30s were simply responding to the mantra they have heard employers chanting for the last ten years: that everyone should expect to regularly change jobs, and perhaps even careers, throughout their working lives. "Yes, we've been our own worst enemy," he said to me. "And now we've got to put a new message out.

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### Benefits and Wages

What about fringe benefits, a tangible sign of an employer's commitment to employees? In health insurance, there has been almost no change since 1979 in the proportion of private-sector employers offering health benefits. What has changed are the eligibility rules, which have become more stringent for short-term and part-time workers, and the take-up rate, which has declined for full-time "core" employees due to spousal coverage. Thus the evidence suggests that "employers are continuing to make health insurance available to their core long-term full-time employees but are restricting access . . . by their peripheral employees" (Farber and Levy 1998).[9]

Pension coverage is a different story. In the 1980s, pension coverage fell sharply for younger, less educated men — the type of workers who once were employed in unionized manufacturing jobs. For mature workers and for college graduates, however, the coverage decline was modest; for women there was a slight increase in coverage. The situation stabilized in the 1990s. Between 1991 and 1997, the proportion of workers in mid- to large size establishments who were covered by a retirement plan rose slightly.[10] The big change, however, has been the shift from defined benefit to defined contribution plans, which is discussed below.

Again, it is important to recall the distinction between stocks and flows. Despite modest shifts in coverage, employers remain key elements in our health and pension systems. Two-thirds of all private-sector workers receive employer-provided health insurance, rising to 76 percent for those employed in medium to large establishments (Farber and Levy 1998; U.S. Bureau of Labor Statistics various years). As for pensions, 63 percent of full-time workers and 21 percent of regular part-time workers are covered by employer-provided retirement plans, with coverage rising to 79 percent in mid- to large-size establishments. Even as some employers are discontinuing particular programs, others are adopting new ones such as preventive medical care, day care, and other benefits targeted at employees with dependents. Recently, a group of twenty major corporations pledged to invest millions of dollars to make child and elder care more available. The companies included such paragons of modern welfare capitalism as Hewlett-Packard, IBM, Mobil, and Texas Instruments (Kalleberg et al. 1997; *Daily Labor Report* 1995).

Another way of assessing where an employer sits on the continuum between market- and organization-oriented policies is to examine the extent to which actual pay rates diverge from market rates. Companies that insulate employment relationships from market forces will be more likely to engage in wage-smoothing over the course of a long-term employment relationship; at any point in time, wages will be less sensitive to market conditions than in spot markets. Such companies also are more likely to pay a wage premium that deviates from market averages. There could be any

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number of reasons for this policy, such as turnover minimization (workers are less likely to quit high-pay employers) or productivity enhancement (workers are more diligent when the cost of termination — here, a fall back to market rates — is high). There is one recent study that finds that wages have become more sensitive to unemployment rates, although the study uses industry data and is limited to manufacturing industries adversely affected by foreign competition in the 1980s. On the other hand, another recent study uses a unique data set covering white- and blue-collar occupations in two hundred large firms over the last forty years. It finds no evidence of a decline in the magnitude or persistence of employer wage premia for individual occupations and groups of occupations. This suggests a high degree of stability in the way employers base their long-term wage strategies on organizational rather than market considerations (Bertrand 1999; Groshen and Levine 1998).

## Explaining the Paradox

To summarize, a variety of sources have been examined to assess the degree of change in career-type employment practices. Blue-collar workers in the early 1980s and white-collar workers in the early 1990s experienced higher levels of permanent job loss. As a result, aggregate job tenure rates have declined modestly since the late 1970s. On the other hand, the majority of workers continue to hold career-type jobs that offer fringe benefits, training, and prospects of continuity. For women and for those in service occupations and industries, long-tenure employment has become more prevalent over the last twenty years. Also, the economy is creating new jobs that are predominantly neither low-wage nor part-time. Hence the majority of displaced workers are finding reemployment in career-type positions. The recent decline in unemployment rates has boosted prospects for displaced workers and strengthened employer reliance on career-type practices.

Taken as a whole, the evidence does not show a radical slide to the market pole of the organizational-market continuum. Organizational considerations still trump market logic for the bulk of the economy's jobs, and the majority of employers continue to shoulder income and employment risks for employees. How, then, does one explain the disparity between the perception of "no long term" and the fact that stability remains widespread in the labor market? There is no simple answer to this question, but explanatory elements can be found in cognitive psychology and the politics of punditry.

## Perceptual Biases

A stream of research in cognitive psychology documents the pervasiveness of loss aversion: People weigh losses — like layoffs — more heavily than

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gains (Kunreuther 1976; Kahneman and Tversky 1979). The job losses of the past ten years have weighed heavily on the nation's middle-classes because they involve educated professionals and managers — people like us, people with whom we can identify. The downsizings and plant closures of the early 1980s did not generate nearly the same amount of angst or media coverage even though the displacement rate then was higher than in the 1990s.

Recent job cuts also rankled the middle-class because they were widely perceived as unfair: the violation of an implicit contract to provide security until senior management's own jobs were in peril, that is, until the company was close to closure. One former IBM employee said, "In January I was told my job was the safest in the nation. In February we were told half the jobs would be gone" (Sampson 1995: 225). Fueling the sense of unfairness was the belief that layoffs resulted not from a search for efficiency but from a greed-driven change in corporate governance that favored owners over employees. Repeatedly in the late 1980s and early 1990s, there were reports of profitable companies laying workers off and then enjoying stock-price increases that benefited senior management and other major shareholders, as at General Dynamics or in the more egregious case of Al Dunlap, former CEO of Sunbeam (Jacoby 1998).[11]

## Fallacy of Discontinuity

Another reason for the discrepancy between the rhetoric and reality of change in employment relations is what might be called, following historian David Hackett Fischer, the fallacy of discontinuity — an erroneous belief that the present is fundamentally different from the periods that preceded it. Not only fashion designers but journalists, management consultants, and academics build their careers around this conceit. Consultants are particularly prone to a faddish way of thinking, since it helps to generate sales of new systems premised on the assumption that the world has changed so drastically as to render worthless existing ways of doing business. Academics have similar proclivities. Enthusiasts for change dramatically pronounce "the demise of organizational careers" and their replacement by something radically different: the "boundaryless career" (Fisher 1970; Hilmer and Donaldson 1996; Arthur and Rousseau 1996).

The media, in particular, seized upon the layoffs of the early 1990s as evidence that the American workplace had become, as the *New York Times* put it, "new and unnerving." The *Times* 1996 multipart series and subsequent book on the "Downsizing of America" took two dozen people more than seven months to produce. It was the longest piece of journalism published by the *Times* since the Pentagon Papers in 1971 (Cassidy 1996). Yet while the series was chock full of painful personal stories, it was virtually devoid of economic statistics for gauging the severity, extent, and consequences of layoff.

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Then there is the Challenger, Gray data series, compiled by a Chicago-based company that specializes in outplacement services. They tabulate corporate announcements of intended, not actual, layoffs. Since the series began in the early 1990s, the media has regularly reported Challenger's monthly figures. But the number of workers actually laid off is often much lower than the job-elimination plans reported in the news releases. Companies announce the highest cutback totals they can justify to impress investors that they are getting lean and mean, and then pursue cuts through mechanisms other than layoff. Sudden mass departures do occur, but reductions also are handled through normal turnover, through transfers, through early retirements, or simply by leaving vacancies unfilled. That is, because the layoffs take place by mechanisms other than layoff and the process' occurs over a lengthy period, a portion of the announced layoff never actually occurs (Silverstein and Maharaj 1999).

## *Risk Shifting: Practices and Prospects*

None of this is intended to deny the fact that there has been a rise in job loss, especially for those employees thought to be most immune to it. While the direct effect has been overstated, the indirect effect surely has been to expose incumbent employees to a greater risk of job loss. Employers have in other respects been shifting more of the risk burden onto employees. That is the logic of managed care and of larger deductibles for health insurance, both of which have grown steadily since 1991 (U.S. BLS various years). It is also the rationale behind the change from defined benefit pension plans to defined contribution plans. Employers also are incorporating more variability into employee pay packages via discretionary bonuses, group incentives, profit sharing, and stock options. In economists' parlance, more pay is "at risk."[12]

The reallocation of risk — not the decline of career-type jobs — is the central dynamic driving today's internal labor markets. Employers are still protecting employees from the hazards of unemployment, sickness, and old-age. However, companies today operate in a turbulent environment of heightened competition, mergers, and rapid technological change. It is a riskier world, and employers are less willing to shoulder as much risk for employees as they did in the past.[13]

Some employees are adapting to this risk — especially younger, more educated workers with "hot" skills — while others are having a tough time of it. These workers still look to their employers as the first line of defense. As that line is pushed back, they question the fairness of today's risk-sharing arrangements. While most of these workers are not about to lose their jobs, they are left feeling more insecure. Forty-five percent of employees in 1977 thought it was not at all likely they would lose their jobs, but the figure has fallen to 30 percent today. Every layoff announcement affects the

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perceived probability of job loss and causes survivors to work harder and worry more. Thus layoffs can have ripple effects far beyond their direct labor cost saving.[14]

Does this mean, then, that eventually we can expect to see the risk burden completely shifted to employees, such that employers no longer will offer fringe benefits, career jobs, fixed salaries, and so on? The short answer is no. Assuming that current trends will continue without limit is a reductio ad absurdum, just as it would have been equally absurd to predict in the 1880s that all jobs would become career positions carrying generous fringe benefits. There are economic, demographic, and political limits to the risk reallocation process. These limits ensure that the corporation likely will remain a central risk-bearing institution in American society.

One such limit has to do with the organizational realities of managing a workforce. For most employers, the net economic benefits of welfare capitalism remain positive. Employee loyalty and commitment still matter, especially in the burgeoning service sector where it is often difficult to directly supervise employees (Herzenberg et al. 1998). New workers have to be trained, which makes employee turnover costly. Employee skills are, if anything, more important today than in the past, especially in fast-changing situations where little is codified and knowledge is tacit. New systems of work organization — such as self-managed teams — are less prevalent than is commonly supposed but nevertheless have grown markedly in recent years. These systems are accompanied by higher levels of training and tend to be associated with career-type jobs, since job stability preserves the interpersonal relationships that make teams effective. Hence, to the extent these systems continue to proliferate, they create employer incentives to stabilize employment.[15]

For these reasons, companies like 3M, Intel, and Motorola have — despite layoffs — preserved career-type jobs, albeit lacking guarantees of permanence. There is plenty of evidence that the practices associated with career-job policies — such as training, profit sharing, and participatory work systems — are positively related to corporate performance. Other companies that have downsized in recent years are discovering that outsourcing and temporary employees — while cheaper in the short run — do not provide the levels of service and quality that are necessary for customer satisfaction (Levine 1995; U.S. DOL 1993; Rebitzer 1995; Pfeffer 1998).[16] A recent study of companies that have implemented "employability" contracts — offering learning experiences in return for heightened employee responsibilities — concludes that the most successful employers are those who retain "a sense of responsibility to protect the jobs of their people" (Bartlett and Ghoshal 1997).

Some argue that companies in dynamic sectors like Silicon Valley, Hollywood, and Wall Street operate according to a different, more market-oriented, logic. Here, workers tend to be relatively young and educated, and

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they can move easily from job to job. Employers do not penalize such mobility because it helps them to keep abreast of competitors and stay on the cutting edge. In Silicon Valley, for example, there is pervasive interfirm mobility. Workers are well paid and can afford their own health benefits and 401(k) plans. However, these workers are an atypical elite, just as footloose craft workers were an atypical but essential elite in American industry ninety years ago. Most workers do not have skills that are either as scarce or as critical to business performance as the technologists in the Valley (Jones 1996).

Also, the employers of this elite are dissimilar in important respects from the bulk of the companies that constitute our economy. Today, most U.S. companies are service providers whose success depends less on technological breakthroughs than on customer attraction and retention. One key to customer loyalty is employee loyalty: experienced and satisfied employees are much better at finding and keeping customers than fresh recruits. In industries such as financial services, the fastest-growing occupations are those that require interpersonal skills, which, unlike accounting positions, are difficult to replace with computerized information systems. These interpersonal skills are relatively less important in high-technology industries that are mistakenly touted as exemplars of the future (Frei et al. 1995).[17]

Even high-technology companies are beginning to recognize that rapid turnover and short employment stints can be detrimental. Take, for example, SAS, a software company based in North Carolina. The company sounds like a throwback to the heyday of welfare capitalism. It offers a thirty-five-hour work week, on-site child care, a lavish exercise facility, and subsidized cafes with live piano music. To make sure employees are healthy, the company maintains its own medical facility with five nurse practitioners, two family practice doctors, a massage therapist, and a mental health nurse. To retain potentially mobile knowledge workers, it tries to accommodate people's changing careers within the company, not by losing them to competitors. (Turnover at SAS is only one-tenth the Silicon Valley norm.) The company's HR manager said, "At 5 P.M., 95 percent of our assets walk out the door. We have to have an environment that makes them want to walk back in the door the next morning." Past history suggests that as some companies accelerate the internalization process, others will follow suit as a defensive necessity (Groves 1999: 55–56).

Second, there are demographic limits to restructuring. Many workers laid off during the past decade came from the relatively small pre-1945 generation that preceded the baby boomers. At one bank, for example, the director said "the machine guns started firing on day one [after a recent merger], with anyone over 50 in the front rank." Because older workers are paid more, they are targeted for layoff and are likely to experience subsequent earnings declines; younger displaced workers recently have been experiencing gains in their median weekly earnings (*Economist* 1998; U.S.

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BLS 1998a). Employer animus toward older workers reveals an important fact: despite all the talk about delayering, corporations remain pyramidal organizations in which seniority and pay are positively related; hence you can cut labor costs by targeting senior workers for layoff.[18] It was feasible to conduct layoffs in the late 1980s and early 1990s because replacement workers from the baby boom generation were plentiful. However, the cohort behind the boomers — generation X — is relatively small. Current estimates are that the number of 35- to 44-year-olds will decline by 15 percent between 2000 and 2015 (Chambers et al. 1998). There is little in sight to relieve the demographic pressure on employers. The long-term rise in female labor force participation is leveling off, while white-collar productivity gains are fiat. In short, current employer concerns with labor scarcity and retention are likely to persist into the next century, putting a brake on future risk shifting.

Finally, there are political limits to the amount of risk shifting that American employers can or would want to pursue. Currently, the United States has lower unionization rates than any other advanced industrial country. Our government spends less on social insurance per worker than other advanced industrial countries. Corporate managers know — or may discover — that if they let welfare capitalism wither, there will be popular pressure for government and perhaps even for unions to fill the gap. That is precisely why Buchanan's candidacy caused such a stir in 1996.

The only aspect of risk shifting that knows no limits is a belief in its inevitability, a habit of mind that Albert O. Hirschman (1991) associates with the "rhetoric of futility." The futility argument proceeds by identifying deep forces — economic logic or human nature — that cannot be altered. Attempts to change them are hopeless and will perversely result in the reassertion of those forces. In economics, the doctrine of rational expectations — that activist fiscal policy is useless in permanently lowering the unemployment rate — is one such example. A similar rhetoric infuses assertions that market individualism has triumphed in the economy. Even when shown to be empirically implausible, those claims nevertheless have real consequences. They encourage the belief that alternative institutions are destined for extinction. Hence to retain those institutions — whether welfare capitalism or the welfare state — is an exercise in futility. Better to hasten the future by dismantling bureaucracies, dissociating from organizations, and taking care of "numero uno" — after all, no one else can or will.

However, as Hirschman goes on to point out, the rhetoric of futility is often proclaimed prematurely; it is a form of wishful thinking. Similarly, it is wishful thinking to believe that market individualism is rampant and that we are living in a world of tenuous associations and arm's-length relationships, the system idealized by nineteenth-century contract law (Horowitz 1979). In fact, we still inhabit a society where markets — including labor markets — coexist and coevolve with regulations, social norms, and other

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institutions. Economic historian Karl Polanyi was the first to identify this "double movement" of two great organizing principles: the expansion of the market and the simultaneous expansion of market regulation. If one studies closely the economic deregulation that has occurred in various sectors over the last twenty years, what one finds is not a move to pure laissez-faire but instead a redefinition of government responsibilities, a process that one political scientist calls "reregulation." As for social regulation, keep in mind that the Reagan administration had little luck in rolling back either Social Security or environmental and consumer protection. Meanwhile, the volume of such regulation has steadily grown in the 1990s, in the labor market and elsewhere (Vogel 1996). This suggests a simple conclusion: while we cannot change the level of risk in today's economy, we can change the rules that govern how risk is shared among the participants to the economic game.

For example, the SEC could require companies to include statements on their balance sheets of how much they have invested in their employees. That would be a first step to getting managers and investors to accurately recognize the value of a firm's human capital. Second, we can reform our labor laws. Employer unfair labor practices have skyrocketed in recent years, and the law is failing to protect legitimate union organizing attempts. Third, we can change the incentives faced by investors. Today, institutional investors own two-thirds of the total equity in the stock market. Institutional investors are fickle creatures who move their capital with breath-taking rapidity. Pension funds should pay capital gains taxes on the stock they churn around. Also, mutual funds could do more to penalize short-term traders for the costs that they incur, such as raising transactions fees and contributing them to the purchased company or mutual fund to benefit long-term returns (Weiler 1990).

## Conclusions

The labor market is in flux, but it would be a mistake to project the future out of recent trends. Career jobs are less expansive, but they have not melted into air. While people are unhappy with the risk they are being asked to shoulder, they still look to employers to share much of the burden. According to pollsters, today's middle-class Americans think that corporations "should balance their self-interest with the need to consider what benefits the larger society" (Wolfe 1998). Those who ask that corporations be responsible are not asking for anything outside the welfare capitalist framework established by corporations themselves. There remains widespread support for the notion that corporations are — or should be — the keystone of economic security in American society. That is the path we have been on for the last one hundred years, and we remain on that trajectory. The risk shifting experienced by workers in the economy's core is a serious

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problem. However, we must not let it overshadow the more critical situation facing less-educated and less-skilled workers. Those workers are steadily falling behind as a result of technological change and globalization as well as factors specific to the United States such as high immigration, weak minimum wage laws, and the decline of unionism. Since 1980, earnings inequality has grown more rapidly in the United States than other advanced countries. Low-wage U.S. workers are both relatively and absolutely poorer than their European or Japanese counterparts (Mishel et al. 1999).

The problem of inequality should not be confused with the rising risk of job loss. True, when less-educated workers lose their jobs, they are more likely than educated workers to experience a permanent reduction in earnings. However, a similar earnings disparity also exists for those who never lose their jobs. When we examine the stock of continuing jobs, we find that long-term employment relationships (over twenty years) currently are as prevalent for those with twelve or fewer years of education as they are for those with baccalaureate and advanced degrees (Fallick 1996; Howell 1997).[19] In short, the primary cause of inequality is not downsizing but rising returns to education accompanied by the waning of wage-setting institutions in the low-wage labor market (e.g., the shrinkage of unions and of real minimum wages). Middle-class workers are entitled to a better deal, but their predicament — and our own anxieties — should not overshadow the plight of low-wage workers.

## Notes

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1. In manufacturing, job-loss rates in the mid-1990s were half the level observed in the early 1980s (Farber 1997; C. Kletzer 1998: 119).

2. U.S. Bureau of Labor Statistics (1998b). If the analysis is limited to large firms, the evidence of job stability is even more striking. For 51 large companies that were clients of Watson Wyatt, a consulting firm, average tenure increased in the 1990s, as did the percentage of employees with ten years (and twenty years) of service or more. Even in firms with shrinking employment, the odds that a worker would be with the employer five years later were higher than the same odds for the labor market as a whole. (Allen, Clark, and Schieber 1999).

3. Bansak and Raphael (1998). Note, however, that when one focuses on tenure rather than separations, older workers do not show larger tenure declines than younger workers. One explanation could be that older workers who have suffered permanent layoff are more inclined to leave the labor market. See Neumark, Polsky, and Hansen (1998).

4. U.S. Bureau of the Census (1998) <www.census.gov/population/socdemo/migration>.

5. These data are drawn from Compustat listings for U.S.-based companies for the period 1990–97. Companies whose employment was affected by merger or liquidation were not included in the sample. MCI and Worldcom merged late in 1998.

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6. Johnson (1998); Vance and Roy Scott (1997); Roush (1999). One reason companies no longer tout explicit no-layoff policies is the spate of dismissal suits in recent years. Plaintiffs sometimes won by claiming breach of an implied promise to provide continuous employment, such as were found in employee handbooks and other personnel policies. (Perritt 1998).

7. The idea of a market-organization continuum is nicely developed in Dore (1989).

8. U.S. Bureau of Labor Statistics (1998a); Koretz (1998); Fallick (1996); Jacobson et al. (1993). Over the past two years, the share of workers worried about losing their jobs fell from 44 percent to 37 percent (Manski and Straub 1999).

9. Another reason for the decline in the take-up rate (the rate at which employees take benefits offered to them) is the recent rapid growth in tailored benefit plans permitting employees to pick and choose benefits. In 1988, 13 percent of big companies gave employees this option; now over half do (*Economist* 1996: 91–92).

10. Bloom and Freeman (1992); Woods (1994); Even and Macpherson (1994); *Employee Benefit Plan Review* (1994); U.S. Bureau of Labor Statistics (1999). If employers, in fact, move radically away from provision of retirement benefits, employees would likely respond by saving at higher rates. But despite the recrudescene of market individualism, the U.S. private savings rate has steadily trended down since the early 1980s.

11. Note, however, that the evidence does not support the popular belief that downsizing boosts stock prices and CEO pay. After controlling for factors like firm size, the effect of layoffs on CEO pay is nil and there is a small negative share price reaction to layoff announcements (Hallock 1998).

12. In medium to large establishments, the proportion of employees with defined benefit plans fell from 59 to 50 percent between 1991 and 1997; the proportion with defined contribution plans rose from 48 to 57 percent. Note, however, that some employees are covered by both types of plans and that some of the shifting occurred across rather than within firms due to rapid job growth in smaller, nonunion companies that are less likely to offer defined benefit plans (U.S. Bureau of Labor Statistics various years; also see Ippolito 1995; and Benoit 1996).

13. The head of human resources at IBM, Gerald Czarnecki, characterizes his company's new approach as a "readjustment which needs a new balancing act. . . . I never thought it was good for a corporation to take over the role of the family unit, which is more dependable for society. Now the pendulum will swing back, to give a larger role to the family. But there's still a role for all three — family, business, and government" (Sampson 1995: 229).

14. Bond, Galinsky, and Swanberg (1998); Ambrose (1996). Efficiency wage models relate the probability of job loss to employee effort levels. These models are a microeconomic version of the Kalecki effect (Valletta 1997; Aaronson and Sullivan 1998).

15. Finding and training a replacement typically costs about 55 percent of a departing employee's annual salary (*Economist* 1998). For establishments with over fifty employees, 30 percent use self-directed work teams, with a coverage rate (percentage of employees affected) of around 12 percent (Erickson and Jacoby 1998; Gittleman et al. 1998).

16. For some contrary evidence on the probability of a low-road approach, see Bailey and Bernhardt (1997).

17. For a similar argument by the head of Bain & Company, see Reichheld (1996). Although he does not remark on it, Reichheld's case studies come from service industries that are the employment-growth sectors of the U.S. economy: financial services, retail sales, insurance, and eating establishments.

18. A study of managerial downsizing in British companies reaches similar conclusions. It finds "no evidence of the kind of transformational change associated with the introduction of a new model. Instead, we find that the traditional model of managerial employment has been eroded rather than replaced" (McGovern et al. 1998: 457).

19. Cutting the tenure data at over ten, rather than over twenty years, does give college graduates an edge over high-school dropouts in the percentage holding long-term jobs. But this advantage also existed twenty years ago, before wage inequality had grown wide (Farber 1997b; Diebold et al. 1997).

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# Chapter 9
# Career Jobs Are Dead

Peter Cappelli

Most observers have a strong sense that jobs and especially careers are different now as compared to previous decades, but it is often hard to put that difference into words. The traditional categories that we use to describe jobs — long term versus short term, high wages and benefits versus low benefits, managerial versus production work — come from an earlier era and reflect the long-standing concern about whether jobs, blue-collar jobs in particular, provide the means to prevent hardship for employees and their families. Sanford Jacoby's article, "Are Career Jobs Headed for Extinction?" (this volume) examines how employment has changed based largely on the traditional criteria noted above. "Career jobs" are implicitly defined in his chapter as full-time jobs that last reasonably long, pay reasonably well, and offer benefits, reflecting the public policy concern about whether jobs provide the means to prevent economic hardship. (I find it more accurate to refer to such jobs as "good jobs" and do so below.) He finds change in some dimensions but evidence of stability in most others. He will get little argument that inequality in outcomes has increased sharply.[1] The fact that the working poor have not participated to the same extent as other segments of the workforce in the economic expansion is perhaps the most important point about rising inequality. His overall conclusion that while all is not well in the labor market, there are still lots of these good jobs (that provide good wages and benefits and that last a reasonable period of time) seems like a fair one.[2] However, the fact that there could be a serious debate as to whether jobs have gotten *worse* during one of the greatest periods of economic expansion in the history of the United States is itself interesting evidence of a change in the economy.

These traditional criteria are not the only aspects of employment, of course, and perhaps not what most readers would think of as central to the issue of careers. Particularly those who are interested in managerial work think of career jobs as ones where employees can expect a career, that is, a succession of advancing jobs within the same organization and employment practices that are under the employer's control.

Something is fundamentally different about contemporary employment as compared to earlier periods, but it is not necessarily a story about worsening terms and conditions of employment. Instead, it is a story about the rising importance of labor markets in shaping jobs and careers and the associated decline in the ability of employers to manage employment and careers inside their organizations. An important cause of the change has been the fact that firms have brought markets inside their own walls through outsourcing, bench-marking, and decentralized responsibility for performance. Once these market forces came inside firms, they began to influence employment as well. Other factors include the restructuring both of the external boundaries of the firm and its internal systems in ways that disrupt career prospects and create permanent insecurity about one's job. Still other changes relate to volatility in product markets and the faster adjustments to them that cause systems and skills to become obsolete more quickly and the demand for new skills to rise more quickly than internal development would allow. Outside hiring results, and it may be the most important factor driving the new market-based employment relationships.

In these new relationships, we still have full-time jobs, including a growing number of managerial jobs that pay reasonably well and that offer good benefits. What we do not have is long-term security — if for no other reason than because the employer's current structure is not very secure — or predictable prospects for internal advancement. Also, the management of employees, including practices such as compensation and development, are driven by the outside market rather than by internal administrative principles. These developments raise important challenges for employees, especially those interested in advancing their careers, as they must increasingly look across companies, as opposed to within them, for opportunities. At least from the perspective of management advice, this is relatively old news.[3] The challenges for employers, on the other hand, are less well known and perhaps even more important. They center on the basic challenge of managing employees as a market-based resource, one that can more easily walk away with the employer's investments.

Because I agree with Jacoby's main conclusion about the persistence of good jobs, it might be helpful to highlight the points of apparent difference in our argument:

- The good old days were not so good. Employer interest in protecting employees from insecurity never ran very deep and was probably always motivated by self-interest. The downside of these internal labor markets was often a kind of industrial feudalism, to use Clark Kerr's phrase, where employees were trapped in a company because there was no outside hiring.
- Declining protections for employees may have less to do with any change in values about the responsibility to employees and more to do with the

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fact that the new environment for business makes stability incredibly difficult to achieve and long-term, predictable careers nearly impossible.

- Despite the general persistence of good jobs, additional evidence suggests that jobs are getting less secure and less stable. This is particularly so for white-collar and managerial jobs, the ones that truly were protected under the old model. The assumption that white-collar employees had special protections from insecurity no longer seems valid.
- Most important, "career jobs" as defined by long-term, advancement prospects in the same organization with employment practices that served internal concerns, are in decline, and their future prospects are poor. Again, this is especially so for white-collar jobs.

## How Responsible Were Employers for Their Employees?

The obligations between employers and employees is an interesting issue that easily takes one deeply into the fields of business ethics, contract law, and psychology in addition to human resources. A more tractable question is, to what extent were expectations of secure jobs and some protections from the market the result of a deep employer commitment, perhaps rooted in some deeper value system like a social contract, or was it mainly the result of a stable economic system that made stable employment reasonably costless?

One place to start this discussion is to recall that as late as the second decade of this century, employment relationships were more like a free market than perhaps even today. The "inside contractor" model was the dominant system for manufacturing, essentially a model of virtual organizations where owners outsourced even production operations to contractors operating in the owner's facility. Professional agents handled the marketing, sales, and distribution of companies on a fee or contingent contract basis. Employees in some industries, such as tapestries, moved routinely from company to company, facilitating knowledge transfer in the process. The turnover of key talent was managed carefully, but turnover of other employees was often remarkably high (Cappelli forthcoming).

Jacoby and others have written in great detail about the history of employer interest in protecting employees, and I will only paraphrase it here (Jacoby 1997; Brandes 1976; Nelson 1995). While the intellectual roots of this interest go back to the 1800s, the first arrangements that were both reasonably widespread and that had any claim to be concerned explicitly with employee welfare was the system of welfare capitalism beginning in the 1920s. My reading of the literature on welfare capitalism suggests quite clearly that the motivation for protecting employees was always the self-interest of company performance. Assembly-line production systems that benefited from reduced turnover had already driven efforts to stabilize employment, such as Henry Ford's famous five-dollar-a-day program. Union

avoidance was far and away the most important objective. The companies most dedicated to stabilizing employment and job security were those whose stable product markets made this outcome relatively easy to achieve. Nor is it clear how widespread these arrangements were. Welfare capitalism was primarily a movement of the largest companies, and it was not clear that even a majority of these employers were ever governed by its principles.

Most observers see welfare capitalism fading from the scene, either completely or in large measure by the Great Depression, and eventually being replaced by management's pragmatic acceptance of collective bargaining as the primary mechanism for protecting employee welfare. The main arrangements for protecting employees from economic insecurity, such as seniority-based layoffs and promotions, supplemental unemployment insurance and severance pay, and low levels of contingent jobs, were collective bargaining outcomes initiated by unions that nonunion firms adopted to buy off employee interest in unionization.[4] It is important to remember that even in this golden age of employee protections, from World War II through to the 1981 recession, workers were constantly being laid off with the business cycle. They had stable jobs in the sense that they would return to the same employer, but layoffs were typical. Employer support for collective bargaining never meant any widespread acceptance of unions. By the 1970s, for example, sophisticated union avoidance campaigns were common, and many employers — perhaps a majority — were taking actions to undermine the unions, some of which included violations of labor law.[5]

The story for white-collar workers was always different. There the model for managing employees was not welfare capitalism, which was directed at production workers, but managerial capitalism, where the managers of the company acted to pursue their own goals as distinct from those of the owners. White-collar and managerial employees *were* the organization, at least in the eyes of the executives.[6] What most people think of as career jobs — good prospects for steady, predictable advancement, lifetime security subject to minimum performance levels, as well good wages and benefits — was more or less in place with the formation of large, multidivisional corporations, expanding in scope and scale as the management structures expanded. In this model, employees were hired based on general skills and attributes, received elaborate initial training, and had a career that was internal to the firm. The systems for managing employees, such as wage and benefit policies, training and development systems, promotion ladders, and other practices of internal labor markets, were part of the elaborate internal administration of the firm.

What is easy to forget now is the rather obvious dark side of these arrangements, especially for managers. Internal labor markets with outside hiring only at the entry level and all promotions internal to the company meant that employees were stuck with their current employer. If they did not fit, they had no choice but to suffer or adapt, and fitting in had as much

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to do with altering one's politics, social attitudes, and values as it did with performance. William H. Whyte's (1956) classic *The Organization Man* is perhaps the best known critique of this system, but other observers such as C. Wright Mills (1953) and (two decades later) Rosabeth Moss Kanter (1977) helped document the often coercive effects it had on employees.

What can we conclude about employers' acceptance of and commitment to the principle that employees should be protected from market risk? Blue-collar workers were protected from short-term, cyclical economic insecurity by union contracts or, in nonunion firms, by policies designed to mimic the provisions of those contracts. Although management agreed to those arrangements, they typically did so as a result of union bargaining power. It is difficult to see these provisions as a manifestation of employer concern about the need to protect employees. Active efforts to erode union gains were underway even before the restructuring waves of the 1980s. White-collar and especially managerial employees, in contrast, experienced a greater commitment. They were given to expect not just protection from insecurity, but lifetime careers inside the company. Elaborate employment systems served that goal with arrangements that were internally focused.

It is hard to gauge the depth of the employer's commitment to protecting white-collar and managerial employees in this period or, put more bluntly, what firms were willing to pay to provide protection. Both the operating environment and the nature of companies were different in that period in ways that made it substantially easier to provide stable employment and career paths. Especially for large companies, product markets were stable and much more predictable in many industries explicitly regulated by the government to ensure stability. Foreign competition was very limited, and domestic competition often operated as an oligopoly where unions effectively took labor costs out of competition with standardized union contracts. Large companies such as IBM made 10- and 15-year business plans that proved accurate. In the context of such plans, it was sensible and realistic to lay out equivalent human resource plans and to say to individual employees: "This is our career plan for you until you retire. And here is how we are going to manage you to ensure that it happens."

The economic instability that these large companies experienced was mainly the temporary kind associated with business cycles. They did bear the cost of protecting at least white-collar and managerial employees from recessions and from modest restructuring efforts. IBM in particular argued, with some justification, that the employment security they offered employees facilitated what by contemporary standards was low-level restructuring of operations brought on by unforeseen market changes.[7] However, there was relatively little pressure to maximize shareholder value, at least by contemporary standards, and executives had much greater discretion to devote resources to such goals. The big restructuring challenges were yet to come.

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No doubt there were individual employers who shouldered big burdens to protect employees; and no doubt employers talked about their practices in terms of the social good. However, in my view, the commitments that most employers had to protect their employees were not very broad, did not run very deep, and had at least as much to do with self-interest as with any broader concern about employee welfare. The best way to test this proposition is to see what happened to that commitment when employers faced much more serious pressures for change in the next period, when the cost of providing protections rose sharply. In that situation, most all of them abandoned virtually everything about the old system, even the rhetoric about their responsibility to employees.

## What Went Wrong?

The world began to change for employers with the 1981–82 recession, the worst economic period since the Great Depression, which brought with it structural changes that went well beyond the usual cyclical downturn in product demand. A number of important changes in the economy and in the way business was conducted got underway in that period. They include the following:

*Pressures to increase shareholder value* — The rising influence of institutional investors and legal decisions that made maximizing shareholder value not only the singular goal for directors of public companies and the executives they managed, but made shareholders the only stakeholders to whom companies were legally accountable. New financial institutions such as junk bonds made possible hostile takeovers of companies that were not maximizing shareholder value. Any resources that companies may have devoted to other causes, such as protecting employees from business risks, were quickly transferred to the goal of shareholder value.[8] More important, investors and analysts seemed to be persuaded that cutting jobs raises shareholder value even though the hard evidence on that point is decidedly mixed. New accounting techniques (such as economic value added that sought to maximize shareholder value) punished fixed costs, including the fixed investments in employees.[9]

*Changes in the boundaries of the firm* — Companies were persuaded that divesting unrelated businesses and acquiring new ones with appropriate synergies could raise shareholder value, and mergers and acquisitions rose to record levels year after year. Companies concerned about focusing on their core competencies learned to outsource functions that were not central to their capabilities and to pursue joint ventures as an alternative to internal development of capabilities. The consequence for employment was to disrupt long-term career paths and, more fundamentally, to make the security of all functions and jobs uncertain. Any operation could be divested if changing markets and changing patterns of competition aligned

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themselves, and all functions could be outsourced if a low-cost vendor came along. One might say that the number of good jobs stays the same in this model and the jobs just move around from company to company, but such movement and the constant uncertainty about movement undermined job security and any attempt to develop long-term careers.

*Changes in the nature of competition* — Shorter production cycles and more rapid change in business strategies associated with faster-paced competition made skills obsolete more quickly. Examples are the change from physical chemistry to biotechnology in pharmaceuticals or from one market segment in insurance to another, where the skills needed are completely different. Employers simply did not have time to develop the new skills they needed internally when dramatic changes in products and strategies happened quickly. So they turned to outside hiring to get those new skills. They also turned to outside hiring to get the managerial skills and experience to facilitate changes in their administrative operations. One way to think about these developments is that product life cycles have now become shorter than the expected career of an employee (see below).

*Changes in the management of organizations* — Work systems that empower employees, such as cross-functional teams, broke down traditional job ladders, eliminated supervisory positions, and widened spans of control. Information systems eliminated many of the internal control functions of middle management positions, and decentralizing operations through the creation of profit centers and similar arrangements further reduced the need for central administration. Flatter hierarchies and the sharp reduction in central administration reduced promotion prospects.

*Policy decisions* — Public policy in the 1980s contributed to the pressures to unbundle employee protection provisions inside firms. The Reagan administration explicitly argued for increasing employer discretion in employment decisions in an attempt to link economic competitiveness to the ability to shed redundant employees, a position that arguably had more influence on management than the decision to fire the striking PATCO workers. Various reports gave guidance as to the best ways to cut workforces. Even under a Democratic administration, the U.S. Department of Labor had by 1995 accepted that companies would continue to restructure their operations in ways that cut jobs. It argued not for preventing such changes but for minimizing the damage to employees (USDOL 1995). Coercive pressures from leaders in the employer community also reversed. IBM's announcement of its decision to abandon employment security and lay off employees was followed shortly thereafter by a wave of layoffs among other large employers. The business community organized itself to press for greater flexibility in employment. For example, the Labor Policy Association, an employer group concerned with public policy, produced a widely circulated study arguing that the key to improved corporate performance is greater management discretion in employment decisions — in

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other words, the end of administrative practices to protect jobs. The requirements of employment legislation also created incentives to unravel the internalized employment structure, incentives that built as regulations increased. The vast array of federal legislation directed at employment has largely been tied to the traditional, internalized model of employment. Alternative arrangements, such as contracting out or contingent work, can mean that "employers" are no longer covered by the legislation, freeing them from its obligations.

*Market alternatives* — An enormous market has developed to respond to these developments. Vendors now exist who will take in every function that could be outsourced. Staffing agencies will lease employees with any set of skills, even CEOs, so that labor costs can be transformed from fixed to variable costs. As noted below, corporate recruiters now offer a rich menu of available applicants to any employer willing to pursue outside hiring.

The protections against temporary, business-cycle layoffs for blue-collar workers proved largely useless against plant closings and other sources of displacement brought on by these changes. To illustrate, seniority-based layoffs in the old model effectively redistributed the risk of the typical layoff threat, which was recession-related, to junior employees so that senior employees were essentially immune to them. However, seniority-based layoffs, which are a within-plant practice, provide no protection against plant closings, now a much more real threat. Even if actual layoffs are no greater than in the past, all workers now experience insecurity associated with them. In an effort to reduce fixed costs, employers also shift more of their tasks to vendors and contingent workers. These changes may not reduce the number of "good jobs" in the economy, but they make current jobs less stable and less secure, reducing the prospects of long-term careers in the same organization. Further, the terms and conditions of employment in these facilities are now governed less by internal considerations, such as equity, and much more by conditions in the outside market.

However, white-collar and managerial employees experienced the most fundamental changes because they were the ones with the most protections to lose. First, they now faced much the same increased insecurity and instability as production workers, a profound change as it undermined what had been the very basis of the distinction between white collar and blue collar. That distinction stems from the New Deal era Fair Labor Standards Act, which is based on the assumption that production workers needed legislative protections that white-collar workers did not because the latter were already protected by the firm. Second, white-collar employees also saw internal careers evaporating as job ladders shrank, restructuring disrupted the promotion tracks that remained, and external hiring blocked advancement by filling more senior positions. To argue that there has been no significant change in employment relationships requires asserting that the above changes in the employer's world are either not very significant or that, somehow they never got down to the employees.

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## *Evidence of a Changing Relationship*

Most of the research associated with changes in the labor market addresses the traditional public policy concern about current terms and conditions of employment. Labor market data in particular are not designed to address questions such as future prospects for job security or for careers inside firms as these are primarily issues about organizational practices. The U.S. government, for example, did not survey for permanent (as distinct from recession-based and temporary) job losses until after 1984. However, some labor market evidence is available that relates to whether career jobs — and not just good jobs — have declined. The main overlap between the concept of good jobs and career jobs as defined above is the issue of job stability and, to a lesser extent, job security. Some care is necessary in interpreting such evidence, however. One reason is that while studies typically look for changes in outcomes for the workforce as a whole, some large percentage of the workforce never had anything like the traditional relationships.[10] So a finding that there is only a modest decline in some outcome for the workforce as a whole might mask a considerable breakdown in relationships for that segment of the economy that truly had career jobs, such as managers. This may help explain why observers who focus on labor market data are the least likely to believe that there are important changes in employment, while those who study organizations, especially managers, are perhaps the most likely.[11] The place to begin a review of the evidence is to acknowledge two fundamental trends that Jacoby reviews in his chapter. The first is the sharp rise in unemployment for white-collar employees, especially relative to other groups,[12] which is certainly among the strongest evidence that whatever special protection this employee group had in the past is gone. The second and more general trend is the systematic shifting of business risk onto employees that accompanied the restructuring of companies, a point that my colleagues and I have documented at length.[13] This is also evidence that buffers against the market have broken down. The review below begins with the evidence that was presented as equivocal in Jacoby's survey as it relates to career jobs and offers different conclusions about it.

### Employee Tenure

Much of the argument suggesting that not much is new in employee relationships turns on research about job tenure — how long an employee stays with their employer. Because so much is based on these findings, it is important to understand what they can and cannot tell us. First and perhaps most important, it is a mistake to confuse stable jobs with secure jobs: Sheherazade had a stable relationship with the Sultan if one looked at the data on tenure because they were together for 1,001 Arabian nights. That does not mean that it was a secure relationship given that he threatened to have her terminated — literally — every night if her job performance fell.

The distinction is perhaps easiest to see in firm-level studies such as Allen and Clark's interesting finding that tenure rose in large, stable firms during the 1990s while 16 percent of the jobs in those firms were cut (Allen, Clark, and Schieber forthcoming).

Tenure is a confusing concept to interpret because it is driven by two quite distinct components: voluntary quits and terminations. From the perspective of employees, only terminations drive job insecurity. We also know that these two components move in opposite directions with the business cycle. Quits fall and dismissals rise during downturns, vice versa during expansions. Because the two components move in opposite directions, stability is built into the overall tenure measure, which makes any changes in tenure meaningful. The more important findings concern trends in quits and in terminations examined separately. Here the results suggest, based on three different sets of data, that permanent dismissals rose through the 1980s and early 1990s while quit rates were falling. One study in particular finds that the rate of dismissals increased sharply for older workers with more tenure, doubling for workers ages 45 to 54.[14]

It is probably fair to say that the inconsistent results about changes in overall tenure rates, sometimes even using the same data, does not make one especially sanguine about the robustness of labor economics.[15] It may nevertheless be instructive to review the results. As noted above, it is important to remember that not all workers had long-term, stable relationships even in earlier periods. For example, now as in the past, roughly 40 percent of the workforce has been with their current employer less than two years. And, as noted above, average stability can mask considerable variance for subgroups in the workforce. The above qualifications aside, while studies found reasonable stability comparing the 1980s with earlier periods, more recent results using data from the mid-1990s find declines in average tenure, especially for managerial employees but even for the workforce as a whole. These include, in addition to the studies mentioned in Jacoby's chapter, studies that compare cohorts over time that seem to find the biggest changes, such as a 10 percent increase in the rate of job changes for younger workers now as compared to earlier decades (Bernhardt, Morris, Handcock, and Scott forthcoming). They also find large declines in tenure for older, white men in particular, the group most protected by internal labor markets. For example, for men approaching retirement age (58–63) only 29 percent had been with the same employer for ten years or more as compared to a figure of 47 percent in 1969 (Ruhm 1995). The most recent studies find that the percentage of the workforce with long-tenure jobs, ten years or more, declined slightly from the late 1970s through 1993 and then fell sharply through the current period and are now at the lowest level in twenty years (Farber 1997). The finding that tenure declined for managerial jobs is especially supportive of the arguments for the erosion of internal career systems (Neumark, Polsky, and Hansen forthcoming).

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In most cases, the findings of declines in tenure are modest, but these modest changes need to be assessed in the context of two caveats in addition to the general ones presented earlier. First, many of these studies are comparing tenure in the 1990s to the 1980s. The 1981–83 recession was the worst economic downturn since the Great Depression, while the period after 1992 to 2000 was the greatest economic expansion since the Depression. In this context, the finding that jobs are only slightly less stable in the 1990s than in the 1980s is hardly evidence of stable careers. Second, the declines in overall tenure for the workforce as a whole come despite the fact that tenure for women has been rising because they are now less likely to quit their jobs when they get married or have children (Wellington 1993). There is no evidence that the rising tenure of women has anything to do with employers adapting or responding to this change in women's preferences.

Nor is the fact that geographic mobility has been reasonably stable any evidence of stability in jobs. In fact, it may suggest the opposite, at least for managerial jobs. Transferring employees around the corporation was a key component in executive development programs, and the corporate interest in relocating employees, as indicated by employer surveys, has been in decline. The alternative to transferring employees is to fill those vacancies through outside hiring. Other survey results suggest that employees now resist moving outside of their communities precisely because of the new market-driven employment model. Their professional networks give them the opportunity to find a new job should they be dismissed, and they fear moving away and having to search for a new position where those networks do not apply (Furchgott 1996).

## Job Security

A better alternative for assessing changes in the employment relationship would be to look directly at job security rather than at proxies like tenure. It is difficult to measure job security directly except through changes in employer policies. As late as the end of the 1970s, survey evidence from the Conference Board indicated that management's priorities in setting employment practices were to build a loyal, stable workforce. A decade later, however, by the end of the 1980s, that priority had clearly shifted to increasing organizational performance and reducing costs (Furchgott 1996). The most powerful evidence in this regard is another Conference Board survey that finds more than two-thirds of the large employers in the sample reporting that they have changed their practice and no longer offer employment security; only 3 percent said that they still offered job security to employees (HR Executive Review 1997).

Employer decisions to end job security through downsizing is another lens into the world of changing employment relationships. Cutting workers

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to reduce costs and improve financial performance, not just to respond to declines in business, is the essence of downsizing. It is a new phenomenon that begins in the 1980s. The American Management Association (AMA) surveyed its member companies about downsizing since 1990. They found that the incidence of downsizing increased virtually every year until 1996 — despite the economic expansion — when 48.9 percent of companies reported them, a trivial decline from 50 percent the year before. Forty percent had downsizing in two or more separate years over the previous six (American Management Association 1996). Other surveys report roughly similar rates of downsizing. The scale of these job cuts are unprecedented in a period of economic expansion.

The causes of downsizing have also changed with a growing number of companies reporting that they now result from internal management decisions — restructuring (66 percent) and outsourcing (23 percent). Virtually none now cite overall economic conditions as an explanation, and most of the companies that cut are now profitable in the year they are cutting. Further, downsizing is no longer necessarily about shrinking the size of the workforce. Thirty-one percent of those firms in the AMA surveys were actually adding and cutting workers at the same time in 1996, and the average firm that had a downsizing was in fact growing by 6 percent (Furchgott 1996). This development suggests that firms are relying on the outside labor market to restructure, dropping skills that are no longer needed and bringing in new ones.

Data on workers who have been permanently displaced from their jobs confirms the fact that job security is declining and is now no longer dependent on business cycles. The overall rate at which workers have been permanently displaced backed down a bit in the late 1980s from the peak of the recession period, 1981–83 but then rose again — despite the economic recovery — and jumped sharply through 1995. The rate at which workers were thrown out of their jobs was about the same in 1993–95, a period of significant economic expansion and prosperity in the economy as a whole, as compared to the 1981–83 recession (Farber 1998). It is difficult to think of more compelling evidence that the nature of the employment relationship has changed than this. About 15 percent of the workforce saw their jobs go forever during 1993–95. The cause of the job losses reported in these surveys mirrors the developments in the firm surveys — shifting away from economy or companywide reasons such as downturns in business or plant closings toward eliminating particular positions associated with restructuring.

Other manifestations of declining job security include the fact that job losses now are much more likely than in previous decades to be permanent; that dismissals for cause, such as poor performance, have increased along with downsizing; and that the employees who were once largely immune from business cycle related layoffs — not only white-collar but also

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older and more educated workers — have seen their rate of job loss rise. Again, these reductions in security have occurred in a period of economic expansion.

### Wages

Changes in the wage structure within organizations is another aspect of the change in employment relationships. One of the main functions of internal labor markets is to create distinctive wage profiles that differ from market rates in order to serve the internal goals of the organization. Job mobility within the same organization tended to produce greater benefits in the form of higher wages and was seen in part as the result of a better match between the attributes of the employees and the requirements of the jobs as compared to job changes in the outside labor market, a testament to the advantages of the internal labor market in allocating labor. By the early 1990s, however, there was no longer any advantage to the inside moves as compared to those across employers (Wilk and Craig 1998). The steady progression of wages based on seniority or tenure was one of the hallmarks of internal systems. The apparent decline in the return to tenure with the same employer is perhaps the most compelling evidence of the decline of more traditional pay and employment relationships. Researchers studying the semiconductor industry, for example, found a decline in the wage premium paid to more experienced workers. Among the explanations are that new technical skills are becoming more important, and those skills are learned not inside the firm but outside, typically in higher education (Brown 1994). In aggregate data, the returns to seniority — that is, tenure with the same employer — have collapsed in recent years (Chauvain 1994). Other studies find a sharp decline in returns to seniority of about $3,000 annually between the 1970s and 1980s for workers with ten years of seniority. The costs of job changing dropped dramatically; and workers who changed jobs every other year saw almost the same earnings rise in the late 1980s as did those who kept the same job for ten years (Marcotte 1994). Further, this effect varies depending on why one changes jobs. The probability that employees who quit would find a job that offers a large pay raise has increased by five percent, while the probability that those who were dismissed will suffer a large decline in their pay has risen by 17 percent over the previous decade (Polsky 1999). These results suggest that a good, lifetime match between an employee and a single employer is becoming less important in determining an employee's long-term success. By default, what must be becoming more important are factors outside of the relationship with an individual employer, factors associated with the outside market.

Another hallmark of internal labor markets was that pay was assigned to jobs rather than to individuals and that differences in pay were associated with differences in jobs. Research suggests greater risk and more variance

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in individual earnings over time that cannot be accounted for by the usual characteristics of jobs (Gottschalk and Moffitt 1994). Some part of the greater variance may be because of a much stronger relationship between individual performance and pay. Hay Associates, the compensation firm, collects data from their clients on the pay increases associated with different levels of individual performance as measured by performance evaluation plans. In 1989, the increase associated with the highest level of performance was 2.5 times larger than the increase associated with the lowest level. By 1993, that ratio had risen to a factor of four.[16] A 1996 Towers Perrin survey found that 61 percent of responding firms were using variable pay and that 27 percent of firms were considering the elimination of base pay increases altogether so that the only increases in compensation would result from performance contingent pay (O'Neil 1997). Data from the Bureau of Labor Statistics finds that the percentage of employees eligible for bonuses rose from 29 percent in 1989 to 39 percent in medium-size and large firms and to 49 percent in small firms by the end of the 1990s (USBLS 1989–1997). The change in contingent compensation has been especially great for executives. Bonuses as a share of total compensation rose more than 20 percent from 1986 to 1992 (O'Shaughnessy, Levine, and Cappelli 1998). Contingent pay erodes the importance of internal, administrative pay systems by placing greater weight on factors that vary such as business and individual performance.

### Benefits

Whether employers are less likely to offer employee benefits is an issue that goes directly to the traditional question as to whether jobs protect employees from hardship. It says nothing, however, about whether employers are offering greater commitments to employees or, indeed, about the nature of the employment relationship. Employee benefits are simply another form of compensation that exists because most are tax-advantaged forms of compensation and, in some cases, because employers can provide them more cheaply than can employees. The biggest development in employee benefits in recent years has been "cafeteria-style" benefits, which make the compensation aspects of benefits transparent by allowing employees to essentially buy the combination of benefits they want from a fixed budget or cash them in for wages. Employee benefits end with employment, just as wages do. The one prominent exception is pension plans which represent a continuing obligation to employees — even if employment ends (at least for vested employees) — and, as such, an indication of a more permanent obligation by employers.

As Jacoby notes in his chapter, pension plans have been on the decline; but even more important than the decline in pension coverage has been the shift in the nature of pensions from defined benefit plans, where workers

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earn the right to predetermined benefit levels according to their years of service, toward defined contribution plans, where employers make fixed contributions to a retirement fund for each employee, especially 401(k) programs whereby employees contribute directly to their retirement fund (Ippolito 1995). With this shift, the employer no longer bears the risk of guaranteeing a stream of benefits. That problem now falls to the employee. The employer's obligations to the employee end with employment, a move away from long-term relationships.

## Contingent Work

Another aspect of changes in employment mentioned in Jacoby's chapter that is relevant to changes in career jobs, as opposed to good jobs, is the extent of contingent work that is made up of temporary, part-time, and self-employed help. Perhaps a better term for this category is nonstandard work because it emphasizes the common characteristic of being something other than full-time employment. Whether these jobs are good jobs as defined above is difficult to assess and may ultimately turn on whether employees take them by choice or because they cannot get full-time, permanent employment. The rise of nonstandard work suggests something about the growing employer preference for variable as opposed to fixed employment costs. It is fair to say that nonstandard work may no longer be growing, but it is also worth recognizing that most estimates indicate that it already accounts for just under one-third of the jobs in the United States.[17] It might be reasonable to include contracting out and vendors in this category, at least from the perspective of the original firm, because they represent the movement of work that had been inside the firm at fixed cost to work that is now done outside the firm at variable cost. The outsourced jobs may still be good jobs, of course, although they often represent significantly reduced career opportunities.[18]

## Outside Hiring

The nail in the coffin of the traditional employment relationship is the greater use of outside hiring by employers. It is difficult to assess the extent of outside hiring, but one study that did so found a sizeable increase in the proportion of employers who sought experienced workers for entry-level jobs (Rynes, Orlitzky, and Bretz 1997). My examination of proprietary surveys of employers finds them reporting a greater interest in outside hiring to meet skill needs (Cappelli 1999). One interesting proxy for the growth of outside hiring is the fact that the revenues from corporate recruiting firms who perform outside searchers for companies *tripled* just during the mid l990s (Cappelli 1999). Not only is there no evidence that employers are making greater investments in their new hires, but the evidence that we have

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suggests that they are making substantially fewer investments, particularly in the extent of training to learn new jobs (Constantine and Neumark 1997).

In my view, most of the economy is moving along a continuum toward greater use of the outside labor market. Movement away from internalized practices does not suggest that employers are necessarily headed toward free agency. However, the set of industries that are well toward that model is more than just the margins of the economy. Silicon Valley is often held up as the example of open labor markets with high levels of mobility across firms and little planned internal development. In this sense, it is not just a geographic location but a metaphor for much of the entire high-tech sector across the entire country. Something like free agency now dominates not only creative industries such as movies and television, but also much of the investment industry. It has also come to professional service firms (accounting, consulting, and law firms in particular), where promotion to partner had meant a lifetime career at that firm. Now movement across firms is common even for associates. Outside hiring may be more common for higher-skilled employees because their higher value added makes search and recruiting costs easier to recoup. But "poaching" (hiring away employees from competitors) is now a phenomenon for all jobs where labor is in short supply. Call centers, for example, have been particularly subject to retention problems from outside hiring. Even state beaches on the East Coast have engaged in poaching lifeguards from each other.

When employers switch from internal promotions to outside hires, they effectively shut down their own internal labor market by eliminating promotion prospects. They also eviscerate the internal labor markets of competitors because the investments made in those employees leave. Finally, outside hiring shifts the attention of employers from inside the firm to the network of potential employers outside the firm where more — and quite likely better — career opportunities lie.

## *Will Tight Labor Markets Bring Back Employee Protections?*

The return of tight labor markets clearly does shift bargaining power back toward the employees. That is one reason why we are seeing rising real wages and increases in the reemployment rates of displaced workers. However, there is no evidence whatsoever that employees are using this opportunity to demand anything like a return to the older model of employment relations. First, employees understand that promises about career paths and long-term security are meaningless. Unless the changes in the business environment outlined above are rolled back, it is difficult to believe that any promises of a return to previous arrangements would be credible. There is also no practical way for employees to bargain for the terms of the old model because there is no way to bind their employer to it (short of explicit

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employment contracts that employers are loath to sign). In tight labor markets, the last thing employees want is arrangements that would buffer them from those markets and their benefits. Second, evidence seems to suggest that employees have already begun to adapt to this new world. Ninety-four percent of employees in a recent survey reported that they believed that they, and not their employer, were responsible for their own job security. When asked what they wanted from employers in a different survey, the top places went to development opportunities. Job security came out in the middle of the list. Surveys of MBA students find greater willingness to take risks and little interest in the large corporations that may still offer the best internal career paths.[19]

Not surprisingly, there is no evidence that employers are reverting to anything like the traditional model of employment relationships. Clearly there are companies such as SAS that continue to offer the old model. (It is interesting, by the way, how often the companies that still offer job security are privately held — not subject to the financial pressures of the investment community — and making products with some protection from fast-changing competition.) However, finding continuing examples of the old arrangements is no evidence of a *return* to those arrangements. There are also many examples in this tight labor market of companies trying to persuade their employees not to quit. But it is difficult to find any examples where companies are offering any concrete promises about future relationships. Every company that I have seen that wants to improve retention in fact is interested in retaining key talent, not necessarily all employees. Every one of these companies also says that they want to improve their ability to hire from the outside, a prospect that undermines their own internal labor market and cuts against the ability of other employers to retain employees. New work systems such as team-based arrangements might be expected to require greater investments in employees and continuity, but there is no evidence that employers are making those investments (Osterman 1995). Even where new work systems seem to require greater commitment from employees, commitment does not require lifetime or even permanent jobs as indicated by the studies showing that contingent workers are just as committed as full-time employees.[20]

## Conclusions

The concern about the possible decline of good jobs began in the 1970s with the long-term decline in real wages and accelerated with the restructuring waves beginning in the early 1980s. Especially in the context of tight labor markets in the late 1990s, it is probably true that the number of good jobs in the economy, as traditionally defined, is not falling and may even be rising. Other changes are underway, however, that undermine the traditional notion of careers within the same organization. Overall job insecurity

remains high because of factors such as the greater volatility of product markets, the greater incidence of restructuring, and the pressures on firms to divert resources from protecting employees toward shareholder value. Outside hiring combined with reduced opportunities for internal promotion helps shift careers from an inside the firm perspective to the outside market. Careers and employee management more generally are increasingly driven by the outside labor market.

Once these developments are underway, it is not within the power of an individual employer to return to the older arrangements. Consider an employer who decides to return to more traditional arrangements with long-term investments in employees, internal promotions, and lifetime careers. Even if such a model made sense for the employer's current context, it would only work if competitors agree not to poach away valuable talent and employees agree not to leave for what, at some point, would inevitably be better offers than they have internally. Neither is likely. The belief that even large companies will be able to offer employees better opportunities than the vast sea of possibilities in the outside market can offer up is a chimera.

These new arrangements do create new sets of winners and losers. While traditional arrangements sheltered employment from market pressures, the new arrangements make the market the arbiter of labor market outcomes. In slack labor markets, employers are able to push even more costs onto employees while in tight labor markets, employees are able to extract more rents from employees. Within the employee population, those with marketable skills and the ability to manage their own careers have made out very well; those without skills, with constraints on their mobility, and lacking career management skills have suffered even more than in the past. These developments may help account for rising inequality in outcomes, and they no doubt will exacerbate that trend. In particular, those who have the resources to invest in their own careers will have even greater advantages over those who do not.

It is not entirely clear what the public interest should be with respect to these developments. Some employee groups that have lost protection from the vagaries of the market clearly need protection from economic hardship. Perhaps the most important change in the policy area is that white-collar and managerial employees now suffer much the same insecurity as other employees, albeit at higher initial salaries. What interventions would help them is not so obvious. Traditional policy solutions of prohibiting undesirable outcomes, such as prohibiting layoffs along the lines of some European policies, does not seem feasible in an environment where business flexibility has been identified with the overall performance of the economy.

An alternative approach, which I think is more sensible, is to reduce the burdens associated with transitions between employers. These might include making employee benefits more portable so that employees do not lose health care coverage or pensions when they switch employers; reforming unemployment insurance, a program designed to accommodate temporary

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layoffs, to help assist employees who face permanent job loss (California, for example, allows companies to draw on unemployment insurance funds to retrain workers who are at risk of layoff); providing much more substantive assistance for retraining employees who are displaced from jobs, including greater access to education; moving away from economic assistance based on employment outcomes, such as the minimum wage, and toward other forms of assistance such as earned income tax credits.

One solution that I do not think is helpful is to expect employers to solve the problem in the old way, to brand employers who do not provide job security as "bad employers" and those that can provide some security as "good employers." Their differential ability to provide security is primarily driven by objective characteristics such as the volatility of their product market, changes in the boundaries of the firm, and the business strategies of the employers, characteristics that have little to do with the moral character of the organization. This is not to say that there are not objectionable and praiseworthy approaches to managing employees but simply that such judgments are often very difficult to make in practice. How about employers who have lost protection from tight labor markets? Do they also deserve help? As odd as this claim may sound, it is put forward in the policy arena — the argument to expand immigration for foreign workers in information technology and other areas is essentially based on the claim that employers need relief from tight labor markets. The challenges of managing retention, developing skills, and directing a workforce without lifetime commitment are real and require radical rethinking of the organization (Cappelli 1999 is essentially about addressing these challenges.).

The rising power of markets is one of the most important developments of our generation. Given that, it should be no surprise that the power of labor markets is rising as well. The effects are likely to be profound, much more complicated than the rise of either good jobs or career jobs, and no doubt will be examined for decades to come.

## Notes

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1. It is worth remembering in the context of this discussion that the research on inequality did not reach a clear consensus that inequality had risen until a good ten or fifteen years after the trend was underway.

2. Other authors who use different criteria to evaluate good jobs, such as real wages and work effort, report declines in at least some measures. See, for example, the annual series by Mishel and Bernstein (various years).

3. See, for example, arguments such as those associated with Arthur and Rousseau (1996).

4. Not everyone thought that these arrangements were necessarily better for employees than those of the previous, more market-driven era because the employees gave up control for security. In the former system, the argument goes, at least employees had more autonomy (Marglin 1974).

5. A detailed guide to these practices, which remained accurate until the early 1980s, is Slichter, Healy, and Livernash (1960). An analysis of the decline of that system is Kochan, Katz, and McKersie (1984).

6. The classic study of managerial capitalism is Berle and Means (1932).

7. This case is argued persuasively in Mills (1988).

8. One might argue that such practices might actually benefit shareholders by improving company performance. The problem is that there is no solid evidence for this position, and every anecdote of a company that appears to succeed in this fashion can be countered by another anecdote about companies that do not.

9. This rise of these pressures from the investor community is perhaps the most important development in the world of business in a generation (Useem, 1996).

10. Even if we focus just on the private sector and leave out the roughly 11 percent of the workforce who are self-employed, in farming, or other jobs that do not fit the model of working for an "employer," organizations still had to be a certain size before it was efficient to have systems of internal development and training, job ladders, and other arrangements associated with long-term commitments. Seven percent of private sector employees work in establishments with fewer than five employees, and 44 percent are in establishments with fewer than one hundred. One researcher calculated that organizations need a minimum of five hundred employees to make formal compensation systems feasible (see Smith 1988). Another researcher argued that only about 40 percent of U.S. employees were in firms large enough and old enough to even have a reputation in their community, something that he saw as necessary to make implicit contracts that were behind internalized employment practices operate (see Oi 1983). Even within those organizations, the lifetime commitment model was generally a phenomenon for managerial workers who typically constituted about one-fifth of a company's workforce. If we define the workforce that ever had the lifetime, career-based employment system as managerial employees in firms large enough to have reputations, a rough estimate would be about 10 percent of the private sector workforce.

11. That the business press focus on these issues, then, might not be because they are necessarily sensationalist but because the issues are especially pertinent to their readers, the middle-class, managerial employees.

12. For an explicit comparison, see Cappelli (1992).

13. See Cappelli, Bassi, Knoke, Katz, Osterman, and Useem (1997).

14. See Polsky (1999) for this result. The other two studies are Bernhardt, Morris, Handcock, and Scott (forthcoming) and Valetta (1996).

15. There are perhaps a dozen recent studies using at least four major data sets to assess employee tenure. They are reviewed in Cappelli (1999). Even more recent studies are discussed in Neumark (forthcoming).

16. Thanks to Steve Gross, then of Hay Associates, for providing me with these unpublished figures in 1996.

17. Segal and Sullivan (1997). The estimates of temporary help in particular count only employees working for agencies, but estimates that include temps working directly for employers might double the total number of temps, from 2 to 4 percent of the workforce.

18. Consider, for example, a company that outsourced janitorial or other lower-level jobs to a vendor. The janitors may still have full-time jobs, albeit now with a vendor. However, the likelihood of being able to advance to any position outside of janitorial work may well be reduced.

19. This material is reviewed in Cappelli (1999).

20. There are now many studies reporting this result, but the first one appears to be Pearce (1993).

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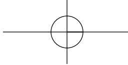



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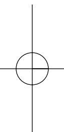

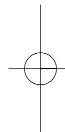

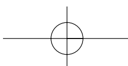

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# Chapter 10
# Reply: Premature Reports of Demise

Sanford M. Jacoby

Are current employer practices qualitatively different from those of the recent past? This is the issue dividing Peter Cappelli and myself. Unlike Cappelli, I do not think that the institutions of the postwar U.S. labor market have undergone a structural transformation, certainly nothing so drastic as to warrant an obituary.

Social scientists regularly contest the nature of institutional change, as in recent debates over the nation state, Nordic corporatism, collective bargaining, and superpower hegemony. Typically the debaters divide into two camps. On one side are the saltationists: those who see institutional change representing a break or rupture with the past. Here there is fascination with punctuated equilibrium models and other metaphors of discontinuous change. On the other side are the gradualists: those who see change occurring adaptively and being accommodated by existing institutions.[1]

Each side in these debates has its virtues and vices. The gradualists are sensitive to structural continuity and to path dependence, although this breeds a conservatism that causes them to miss historical turning points. The great neoclassical economist, Alfred H. Marshall, was a gradualist whose marginalism caused him to declare "Natura non facit saltum" (nature makes no leaps). The problem is, sometimes it does. Saltationists are alert to these transitions and quick to see fresh patterns. They also, however, have a tendency to give recent events more weight than a long-term perspective would warrant. There lies the nub of my differences with Cappelli (this volume).

To understand my position, we need to go back to the late 1960s, when economists concerned with poverty developed a labor-market taxonomy known as the "dual labor market" model. In this model, the secondary sector was comprised of jobs that were easy to learn, paid relatively low wages, and offered few rewards to tenure. Some of these were full-time jobs; others were part-time or temporary positions. Secondary workers were

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disproportionately young, female, and nonwhite, with high turnover rates (Doeringer and Piore 1971; Edwards et al. 1975).

The primary sector was the *locus classicus* of the internal labor market, characterized by use of administrative principles to guide labor allocation and by strong attachments between employers and employees. These attachments caused the formation of firm-specific human capital. To retain and to motivate employees, companies offered wages and benefits that rose with seniority. Incumbents were favored over outsiders for vacancies. The employment relationship was maintained over time, although the strength of the tie varied by occupational tier.

The primary sector's upper tier was composed of salaried executive, managerial, and professional employees. Except in catastrophic situations like the Great Depression, these employees had Japanese-style lifetime jobs. The lower tier was filled with hourly blue-collar, clerical, and sales employees. Their jobs offered fewer rewards to tenure than the upper tier (as in the distinction between annual salaries and hourly wages), but they did provide a fair degree of stability. The big contrast in lower-tier jobs was between those in the union sector, where income security was emphasized, and those in the nonunion sector, where employment security was more prevalent.

During business downturns, the union sector utilized a layoff-rehire system tied to seniority and subsidized by unemployment insurance and private benefits. The nonunion sector was more likely to respond to downturns by cutting hours and compensation, or by transferring employees. Because of these differences, layoff rates in the 1960s were two to four times higher in the union sector, and unionized workers were about 50 percent more likely to experience temporary layoffs. Unionized workers also were more likely to experience layoffs than their counterparts in Europe or Japan (Jacoby 1997). While permanent mass layoffs were rare during the postwar boom, they did sometimes occur. Typically unions handled them through transfers of senior members, or, if this was not an option, through a severance pay plan. Like temporary layoffs, severance plans revealed labor's preference for income, rather than job, security. As observers noted in 1960, this preference demonstrated "a basic conservatism in the American labor movement" because it allowed unions to "avoid the necessity of bargaining over such essential management decisions as production schedules, capital improvement plans, and plant location (Slichter et al. 1960).

In short, the antediluvian world had a certain structure and logic. The least stable jobs were in the secondary labor market, where weak attachments resulted in low tenure and high turnover. In the primary sector, the most stable jobs were held by managers and executives; lower-tier primary workers enjoyed many upper-tier perquisites, albeit to a lesser degree (and, in the case of unionized workers, with a greater emphasis on income security). Pay and employment levels fluctuated less than market conditions; when employers made pay and allocative decisions, they gave heavy weight

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to organizational factors (like seniority, equity, and morale) and not only to market considerations. Risks that might otherwise be borne by employees were absorbed by the employer.

Of course, the fact that employers operated internal labor markets in this fashion had everything to do with self-interest and not benevolence, except to the extent benevolence constituted a form of enlightened self-interest. That employers chose to shoulder risk for employees was the result of an interplay between efficiency factors (recouping investments in employees and providing incentives for employee effort); the rise of modern management (including professional personnel managers and systematic attention to employee psychology); social norms; and various external forces (ranging from union pressure to law to tax incentives).[2]

So where do Cappelli and I disagree? We differ on four main issues: the persistence of the labor market's pre-1980 structure; the manner in which this structure has adapted to the post-1980 environment; the contrast between managers and other occupational groups; and the interpretation of data.

## The Pre-1980 Model

The model sketched above remains a good first approximation to the contemporary labor market. Employers in the primary sector — the focus of my essay — still face a similar set of incentives and pressures, what I referred to in my essay as the "organizational realities of managing a workforce." True, some of the underpinnings to internal labor markets have grown weaker, notably labor unions. However, there also are new forces that are raising the return on employee retention. The economy increasingly is being driven by competition based on creativity, skill, and relationships. While some companies are content to cross-fertilize an industry through the turnover of skilled employees, as in parts of Silicon Valley, most employers prefer a proprietary approach. Hence they make strenuous efforts to manage and retain their intellectual capital (Pfeffer 1998; Stewart 1997).

To reduce the cost of these efforts in a riskier world, employers rely on a core-periphery model, in which secondary jobs — temporary, part time, and others — are used as a buffer to stabilize core jobs and as a screening device to select future core employees. Secondary workers are employed by outside contractors or by the primary employer (a distinction that has legal ramifications, as Microsoft recently discovered). These new forms of sectoral articulation are a change from the older version of autonomous dual markets. However, they are consistent with the preservation of career-type jobs.

How large and persistent has been the growth of secondary or nonstandard positions? Cappelli and I agree that nonstandard jobs have not been growing since the mid-1990s. Where we differ is in our assessment of their

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growth before then. Currently, of the roughly 30 percent of the employed who hold nonstandard jobs, over two-thirds are part-time workers, a group whose share of employment has not changed since the early 1970s. The remainder consists of workers in "alternative employment arrangements": independent contractors and consultants (6.7 percent); on-call workers (1.6 percent); temporary help workers (1 percent); and workers provided by contract firms (0.6 percent). This is a motley group. The independent contractors and consultants are relatively educated; one-third possess college degrees, a higher proportion than traditional workers. Only 4 percent consider their jobs likely to last for less than a year and 84 percent prefer their arrangement over a traditional job. Workers provided by contract firms resemble independent contractors; they tend to be educated and consider their jobs to be stable. On the other hand, temporary help workers and on-call workers are disproportionately young, female, and less educated. Most do not think their jobs will last and nearly 60 percent would prefer a traditional job. Thus an upper bound on the increase since the 1970s of nonstandard jobs that are undesired and unstable is less than three percent of employment, a change but not a sea change (USBLS 1997, 1998b).

## *Adaptation not Extinction*

It is true that the economic environment is different now than in the 1970s, due to technological innovation and the intensification of domestic and global competition. However, the new environment has not led to the death of internal labor markets and long-term jobs, such as they were (and are). Rather — and this is the central point of my essay — internal labor markets have adapted to change by shifting risk and uncertainty from the firm to the employee. Employees today are bearing more risk — including the risk of job loss — but are doing so within structures that have remained stable over time. When we look at the kind of workers who held primary jobs in the past — adult high-school and college graduates — the proportion reporting more than ten years' tenure with the same employer was 42 percent in 1979 versus 37 percent in 1996. Despite job losses and restructuring since 1980, long-term attachments are only slightly less prevalent today (Farber 1997b).

Real wages have declined for some workers, especially the less educated. However, this in itself is not inconsistent with a world of long-term jobs and risk-sheltering by employers. In fact, to a degree the two phenomena are related: Some workers have traded (or been forced to trade) lower real wages for job security and the maintenance of benefits; other workers — particularly managers, a point I will return to — have enjoyed rising wages at the expense of job security and some job-related benefits. The real paradox of today's labor market is the coexistence of job loss and long-term employment, sometimes within the same organization. This causes job losses

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to have a ripple effect, making survivors work harder and worry more. However, the survivors, while bearing more risk, continue to hold long-term jobs whose pay and working conditions remain heavily influenced by organizational considerations.

## Managers and Other Occupational Groups

Cappelli gives a lot of weight to the experiences of managerial and executive employees. In fact, his argument about the death of career jobs is really about the collapse of job security for managers, and his evidence of a shift from organizations to markets is weighted heavily to managerial phenomena, such as executive compensation and careers.

Without doubt, managerial work has changed drastically in many firms. Much of the decline in aggregate job stability in the 1980s and 1990s was concentrated among long-tenure males in managerial occupations. Prior to those years, managers were an extremely privileged group. In large companies, they had Japanese-style lifetime employment, generous perquisites, and insulation from market forces. As William H. Whyte observed in 1956, the Organization Man believed "his relationship with The Organization is to be for keeps" because if he was "loyal to the company . . . the company would be loyal" to him (Jacoby 1985: 279). It's not an accident that Whyte wrote his book in the 1950s. The multidivisional or M-form model took hold after World War II, bringing with it an enormous demand for middle managers to hold together increasingly complex and differentiated corporations. The 1950s also saw American companies become increasingly multinational, with a rising rate of foreign investment and consequent need for managerial expertise. At the same time, there was a scarcity of talent. MBA programs had not taken off yet, and the cohort born in the Depression (who were graduating from college in the 1950s) was relatively small. As sociologist Glen Elder has shown (1974), these children of the Depression were obsessed with security, and big American companies were happy to provide it. The result was a golden age for American managers. To some extent the party was paid for by shareholders, who had ceded power to managers. Writing in 1959, Adolph Berle called this "power without property" and dubbed it "a new development in American political economy" (1959).[3]

In the late 1980s, there was a sea change for managers. Managerial hierarchies were gutted as mergers, information technology, and corporate decentralization reduced the need for middle managers. Further down the hierarchy, self-managing teams took the place of first-line supervisors. Meanwhile, MBAs graduating in the 1980s were a different breed, too young to have been touched by the depression and different in other respects from their elders (Mills 1987; Osterman 1996). They were drawn to expanding sectors like Silicon Valley, Wall Street, and management consulting —

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places where the upside pay potential was high but where careers were more market oriented than under the postwar model.

Nevertheless, recent evidence indicates that the corporate pendulum is starting to swing back to a concern with managerial retention and development. In most big companies, managerial downsizing is now a fait acccompli. That fact, coupled with tightening labor markets and shifting demographics, is causing a new shortage of managerial talent. "Brain Drain," the cover story of a recent issue of *Business Week* (1999), explains that with the leading edge of the baby boom generation nearing retirement, companies are "moving decisively to hang on to their most experienced workers," including executives over fifty, a group that "until recently was being rushed out the door."

What about nonmanagerial occupations? This is a huge and diverse group, including blue-collar jobs; service and sales positions; semiprofessionals like technicians, teachers, programmers, and nurses; and traditional professions such as law, engineering, and accounting. Most of these occupations remain situated in internal labor markets. While these jobs were never as stable as managerial positions, they were hardly a spot market. In 1979, before restructuring got under way, the proportion of blue-collar workers with tenure over ten years was precisely the same as it was for managers (46 percent); clerical employees were only slightly lower (39 percent; see Farber 1997b).

The big change for blue-collar jobs came in the early 1980s, when there was a wave of layoffs and plant closures that caused enormous pain in affected communities. However, the contraction of blue-collar jobs failed to receive the sort of publicity that occurred a decade later when managerial jobs were on the block. As I have written elsewhere, "only in the 1990s, when professionals and managers were the ones at risk, did the politically influential middle class begin to feel threatened and the media take notice." Another reason blue-collar layoffs did not attract more notice was their consistency with labor's earlier decision to favor income security over job security. As a former Steelworkers official admitted in the early 1980s, "We may have backed ourselves into a corner by settling for income security rather than dealing with the immense complexities of fashioning job security arrangements." (Jacoby 1997: 257, 261).

Since then, however, unions have painfully shifted their emphasis to job security, while U.S. manufacturers have made an equally painful transition to quality production. Now there is a new regard for high-performance work practices such as self-managed teams, job rotation, and problem-solving groups. The use of these practices increased rapidly in the 1980s and 1990s. Cappelli is skeptical that such practices are leading to greater training investments and that they require enhanced employment security. However, recent studies by Paul Osterman and others find training investments to be substantially higher in establishments utilizing high-performance practices.

Moreover, use of these practices is associated with having fewer contingent employees and less outsourcing. That is, high-performance practices solidify the jobs of core employees, sometimes at the expense of managerial positions. Companies adopting these practices have fewer managerial employees and their managerial ranks grew at a slower rate in the 1990s. This is one reason why, since the mid-1980s, blue-collar job displacement rates have steadily dropped while those for managers have steadily risen (although managerial rates remain at levels well below those of manual workers; Cole 1999; Osterman 1999; Erickson and Jacoby 1998; Kletzer 1998).[4]

In service and sales occupations, mobility patterns and job-security measures both show that internal labor markets are being preserved, even as pay becomes more differentiated by market segment. While such occupations continue to have lower tenure levels than managerial positions, they are relatively stable. The fraction of sales and service workers with tenure over ten years held steady between 1979 and 1996, unlike managerial tenure (Batt 1999; Frenkel et al. 1999: 105–6; Farber 1997b).[5]

As for the fast-growing semiprofessional and technical occupations, their skill and education levels are helping to drive the economy. Yet as sociologist Charles Heckscher (1988) points out, "they are semi in that their status is bound up with their place in a particular company, not with universal standards that go beyond the firm" (69). That is, their skills are partially firm-specific and this fact, combined with high demand for their skills, has kept their displacement rates since 1981 lower and less variable than for managerial employees (Kletzer 1998; Frenkel et al. 1999).[6]

## Tenure Data

I agree with Cappelli's (this volume) assessment that the "findings of declines in tenure are modest." His caveat — that many of these studies are comparing tenure in the recessionary 1980s to tenure in the expansionist 1990s — does not apply to most of the studies we cite, which either use pre-1981 basepoints or adopt sampling and other controls for business-cycle effects. His second caveat is that rising tenure for women is not due to changes in employer policy but is a statistical artifact: the result of more women not quitting their jobs when they get married. However, the fact is that the rise in female tenure, although modest, is robust and persists even when demographic controls are applied to the tenure data. One of the major growth areas for corporate welfare activity in the 1990s has been "work and family" programs that attempt to accommodate women's career aspirations by making it easier for working women to be mothers. Employers have been spurred to do more in this area partly as a result of the 1993 Family and Medical Leave Act, although efforts started before then. The programs can be faulted for delivering less than they promise, but they are

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more than fluff. Hard dollars are being spent on flexible spending accounts that reimburse employees for childcare expenses, on greater amounts of paid time for personal and sick leave, and on direct childcare (although this is less prevalent than other programs). The evidence shows that these expenditures are affecting women's career decisions (Hofferth 1996).[7]

## Job Attachment Data

True, tenure tells only part of the story and we need to look at other data from which we can infer job attachment. The problem is that these data are more ambiguous than the tenure data. Studies based on the CPS show stability of retention rates over the 1980s and early 1990s; those based on panel data are more diverse, with some showing a decline in retention rates and others no evidence of change. Another approach is to separately examine involuntary and voluntary (quits) mobility. One would expect a rising proportion of involuntary separations to make workers feel less secure, even if total separations have not changed. Here too, some studies find increases over time in the proportion of separations that are involuntary; others do not.[8] One could attribute the lack of consensus to the shortcomings of labor economics, or conclude, as I do, that the findings are ambiguous because changes in job attachment have been modest.

Other studies look at job loss rates using data from the Displaced Workers Survey. The DWS is problematic because there have been changes over time in question wording and survey design. In his analyses of the data through 1995, Farber (1997a, 1998) has made heroic efforts to control for these problems. Farber finds that, until the 1993–95 period, adjusted job loss rates had a strong cyclical pattern, rising during recessionary periods (1981–93, 1989–91) and falling during expansions. The only exception is 1993–95, when job loss rates failed to decline despite the beginnings of what has become a sustained expansion. If Cappelli is right, then the mid-1990s mark the start of an historic shift in job-loss patterns. However, it is also possible that the huge job losses of the mid-1990s were one-time events not likely to recur. The mid-1990s recovery was exceptionally feeble; unemployment barely fell and productivity was weak. Only after the mid-1990s did the expansion pick up steam. Indeed, the most recent DWS data show job displacement declining since the mid-1990s. While the number of displaced workers is not small — 3.6 million individuals from 1995 to 1997 — it is 15 percent lower than the number displaced in 1993–95. Also, reemployment is occurring more quickly than in the mid-1990s, as one would expect given the recent strength of the labor market.

We do need to supplement these aggregate data with analyses of particular firms, both those that are downsizing and those that are expanding. On the former, the Watson Wyatt data on large companies with shrinking employment finds no evidence that mid-career employees have been singled

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out in downsizing decisions. Consistent with the logic of internal labor markets, the impact of downsizing is still borne by junior workers, and there is no evidence that firms are substituting junior for mid-career employees. Moreover, these large but downsizing firms continue to have higher retention rates than the labor market average. "From a purely statistical standpoint, a worker in the early 1990s had higher odds of staying with [a shrinking firm in the Wyatt sample] than they would have had in any job picked at random." (Allen, Clark and Schieber 1999).

As for companies with job gains, the Wyatt data show that these firms had higher retention rates than those that were shrinking — not only for junior employees but also for those with substantial seniority (over twenty years) — a finding that suggests that internal labor markets are enduring. True, some of these companies are privately held, which gives them freedom to do things that other firms can not. However, ownership is not destiny. There are plenty of publicly held growth companies oriented to employee retention. Even in the high-technology sector, such firms — like upstart Inktomi and giant Microsoft — pride themselves on being "sticky" employers (at least of their core employees). Furthermore, publicly held companies sometimes offer more security and risk sheltering than do private companies. David I. Levine et al. (1999) point out that Wal-Mart's 910,000 employees are "buffered from the external market in ways similar to the traditional internal labor market, particularly as compared to the Mom & Pop stores they displaced."

## Pay Data

Not only stable employment, but wages that rise with seniority are another characteristic feature of internal labor markets. The single most comprehensive study of returns to tenure finds that these returns not only have persisted over the period 1975–91, but have actually risen slightly. The picture for young workers is mixed: returns to tenure have fallen for those holding jobs less than eighteen months but have risen for those holding jobs for nineteen months or more (Altonji and Williams 1997; Bernhardt et al. 1998, Teulings and Hartog 1998).[9] Other types of market-sheltered wage practices also are not eroding. Employer wage premiums have remained stable in the 1980s and 1990s. Also, the compensation practices of large and small firms are at least as different in the 1990s as they were in the late 1970s. Big firms continue to pay more and their occupational wage structures have not converged with smaller firms. All of this suggests the continued existence of pay structures based on organizational considerations (Levine et al. 1999; Belman and Levine 2001).

It is true that there has been a movement in recent years toward basing pay more heavily on individual and organizational performance. However, the shift has been monetarily most important for managers. For nonmanagerial

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employees, performance-based pay, while more prevalent, still affects only a tiny fraction of total compensation. Conversely, job characteristics remain an important determinant of pay. Wage inequality among people with the same job title in the same organization changed very little in the 1980s and 1990s. Also, the use of formal job evaluation plans has increased over the last five years, further evidence that job characteristics still matter for pay setting (Levine et al. 1999).

## Conclusion

Most adults continue to be employed in long-term jobs situated in internal labor markets, although they are more exposed to market forces than thirty years ago. Shifting risk to employees is a sign that internal labor markets are adapting to a more turbulent environment, not that they are dead. Managers and executives have experienced major changes in career patterns and pay practices, more so than other groups. To what extent those changes will endure in coming years is, however, an open question.

None of this is to deny that segments of the labor force are experiencing leaner and meaner arrangements. Risk-shifting may sound bland but it does mean more uncertainty and stress for affected employees. For now, the tight labor market has taken the edge off these changes. The general mood is optimistic, much as in the late 1920s, when overall prosperity was combined with sectoral dislocations and risk-shifting in response to market turbulence. Hopefully, history is merely rhyming and will not repeat itself.

### Notes

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1. See, for example, Ohmae (1995) versus Wade (1996); Lange et al. (1995); Erickson and Kuruvilla (1998); Brilmayer (1994) versus Steel (1995).
2. On the rise of internal labor markets, see Jacoby (1985).
3. See Chandler, (1962); Tsurumi (1977).
4. One of Osterman's troubling findings is that use of high-performance practices in 1992 is positively associated with higher layoffs five years down the road, except in unionized establishments. Yet more research needs to be done on this important issue, because the model can't tell whether the layoffs are a result of productivity gains being appropriated by nonunion firms or of declining sales for those firms.
5. The picture for clerical jobs is decidedly mixed: job losses and insecurity for some; higher skill levels and new opportunities for others (Herzenberg et al. 1998).
6. One might argue that the relevant approach is not to look at occupations but at education levels. Yet long-term jobs (over twenty years) are as prevalent for those with twelve or fewer years of education as they are for those with baccalaureate and advanced degrees. Cutting the tenure data at 10+ rather than 20+ does show college graduates being more likely than the less educated to hold long-term jobs. However,

the same advantage existed twenty years ago, before the turmoil in the labor market. Similarly, four-year job retention rates fell in the 1980s for high-school dropouts and high-school graduates relative to college graduates, but ten-year retention rates for college graduates showed a slight decrease relative to the less educated (Farber 1997b; Diebold et al. 1997).

7. Earlier that year Motorola announced that it was opening onsite childcare centers at several of its semiconductor manufacturing plants (*Wall Street Journal*, 1999).

8. For a review of these studies, see Allen et al. (1999) and Bansak and Raphael (1998).

9. The Chauvin study cited by Cappelli is based on manufacturing managers during the period 1979–83, not the best sample for assessing aggregate or long-term trends.

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