Chapter 8
Are Career Jobs Headed for Extinction?

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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 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 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 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 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 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 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 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 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.

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 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 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.

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 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 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.

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 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 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.

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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