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Chapter 9

Career Jobs Are Dead

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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.

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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

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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.

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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

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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).

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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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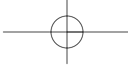

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