DOCUMENT RESUME

ED 417 334 CE 076 077

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TITLE	Making Careers out of Jobs: Policies To Address the New Employment Relationship.
INSTITUTION	Columbia Univ., New York, NY. Inst. on Education and the Economy.
SPONS AGENCY	Grant (W.T.) Foundation, New York, NY.
ISSN	ISSN-1059-2776
PUB DATE	1997-12-00
NOTE	5p.
PUB TYPE	Collected Works - Serials (022)
JOURNAL CIT	IEE Brief; n17 Dec 1997
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Career Development; *Career Education; Career Ladders; Cooperative Planning; Coordination; *Education Work Relationship; *Educational Needs; Educational Policy; *Employer Employee Relationship; Employment Patterns; Employment Practices; Federal Legislation; Fringe Benefits; Labor Legislation; Labor Market; Models; Needs Assessment; Organizational Change; *Public Policy; Salary Wage Differentials; Secondary Education; Strategic Planning; Trend Analysis; Unemployment Insurance; Unions

ABSTRACT

Economic, technological, and political changes have created a new employment relationship characterized by an externalized labor market, more tenuous ties between workers and employers, and growing wage inequality. To date, policymakers have sought to address these problems through a supply-side approach focused on education and training. What is needed instead is a demand-side policy resulting in the following: multiemployer career ladders; strengthened internal labor markets; improvements in the quality of low-wage jobs; and a stronger system of labor market coordination. Four distinct models for pursuing these goals have been identified. The two most powerful, joint initiatives between unions and a group of employers and legislative and legal reform, seem unlikely to be implemented because of the political climate and the current system's profitability to employers. The third policy model, worker-based organizations such as worker-run hiring halls or temporary agencies, is potentially powerful but will have little impact if employers do not use the organizations. The fourth option, intermediary institutions that simply coordinate the workings of the labor market, is relatively easy to implement but addresses only one of the four policy goals. Achieving significant improvements in wages and employment will require broad institutional and legislative changes. (Contains 12 references.) (MN)

INSTITUTE ON EDUCATION AND THE ECONOMY
IEE BRIEF

ISSN 1059 2776

Number 17 / December 1997

MAKING CAREERS OUT OF JOBS: POLICIES TO ADDRESS THE NEW EMPLOYMENT RELATIONSHIP

Annette Bemhardt and Thomas Bailey

A NEW EMPLOYMENT RELATIONSHIP

American workers have witnessed striking changes in their jobs and wages during the last three decades. An established body of research documents an unprecedented rise in wage inequality and declining wages for low-skilled workers. Despite a strong economy, the introduction of high-performance work systems, and technologies that favor skilled labor, we continue to see a proliferation of low-wage jobs (Bailey and Bernhardt 1997, Noyelle 1990). Forces deeper than the business cycle are at work, in particular the globalization of markets, new technology, and changes in wage-setting institutions. Moreover, the negative trends in wages are not simply the result of a temporary disequilibrium caused by the shift from manufacturing to service industries. In the service sector, well-paid professionals and technicians coexist with badly paid janitors, office clerks and sales workers (Macdonald and Sirianni 1996).

The problem extends beyond wages. Downsizing, subcontracting and restructuring have led many workers to lose any sense of job security, and the concern is that more volatile markets are bringing about increased shifting of workers between employers. At the very least, we know that job instability has risen for workers at the "periphery" of the labor market: those without a college education, the young, and non-whites. These groups are structurally the most vulnerable to changing employment practices and therefore likely to be affected first. Also, the percentage of workers employed in contingent jobs has risen dramatically as employers have increased their use of temporary and leased work (Belous 1989).

The long-run effects of these changes may be even more damaging: What happens to promotions, raises, and the career ladder when workers move from one employer to the next in short order, and when employers are increasingly reluctant to invest in on-the-job training? As yet, we have no clear answer to this question, but we are witnessing a disturbing trend: In recent decades, the wage gains that workers make over the course of their careers have become more unequally distributed (Bernhardt, et al. 1997). That is, some workers continue to follow the traditional career path, eventually settling into a long-term job that brings regular and permanent wage gains over time. But other workers increasingly cycle between a series of low-wage and dead-end jobs, and thus fail to experience the lifetime income growth that is the backbone of upward mobility.

What we have, then, is evidence of growing inequality on at least three fronts: wages, job stability, and the chances for upward mobility. Thus, the character of the American employment relationship is changing. The old employment system, which is currently being abandoned, was predicated on the lifelong job. Especially in unionized companies, workers were guaranteed job security, yearly raises, and access to formal grievance procedures. In return, employers got a committed workforce, control over labor supply, and a customized training system that more or less automatically prepared workers for jobs above the entry level. Since workers learned on the job, they brought firm-specific knowledge and tested skills to each new position (Kochan, Katz, and McKersie 1986).

The internalization of all of these functions—the internal labor market—was the foundation of the old employment system. But that system incurred its own costs. Because employers made at least an implied commitment to workers, their flexibility was constrained. They could not easily hire from the outside, nor change the number of workers being used, the number of hours they worked, or the wages and benefits they were paid (Hyman 1988). Full-time, permanent workers with long tenures need to be paid high wages and substantial benefits; some of them will sit idle during slack demand, and others must be re-trained each time technology changes.

The terms of this trade-off have apparently deteriorated for American employers. Starting in the 1970s, cost reduction became the overriding basis of competition. Firms increasingly sought flexibility in who is hired, for how long, and for how much. To get that flexibility, employers are now willing to forego the motivation and firm-specific knowledge of long-term employees. Rather than grooming workers for advancement, they minimize the number of full-time employees, adjust to fluctuations in demand with contingent workers, and rely on the external labor market for skilled and educated workers (Cappelli 1995). This last strategy is especially important because it potentially destroys the career ladders that link entry-level jobs to those further up in the hierarchy.

On balance, the new employment relationship is of most benefit to employers. Whether or not it is beneficial to society, in terms of global competitiveness and productivity, remains to be seen. But at this point, it is clearly not beneficial to workers. The old system may well have been rigid, but some of this rigidity stemmed from institutions, laws, and regulations that protected workers. Since such institutions and laws do not yet exist under the new system, a new generation of workers—especially those without a college degree—is entering the labor market with limited prospects for a living wage, stable employment, and upward mobility.

THE POLICY CHALLENGE

What types of policies will stem the growth in inequality? What types of institutions, laws, and regulations will protect worker welfare while maintaining the flexibility that employers need?

Under the premise that significant numbers of American workers are not prepared for the new global economy, many see education and training as the answer, enabling supply to catch up with demand. But education and training policies only make sense if there are good jobs for trained workers to fill, and it is not clear that American firms are creating enough of these types of jobs. Many businesses thrive on "low-road" strategies that emphasize cost-cutting, outsourcing, and low wages. These low-road strategies are efficient and competitive.

Further, skills alone do not protect workers against wage and job instability. Our current employment laws are modeled on the permanent job, with only infrequent and temporary lay-offs. These laws are inadequate to protect workers who have only tenuous relationships with employers and who are often unemployed between jobs.

Finally, a more volatile and fluid labor market puts severe pressure on current job-matching systems. For firms, the problem is to find, screen, hire, and train an increasing number of workers in a short time span. For workers, job searching threatens to become a constant activity as time spent with one employer grows shorter and shorter. Education cannot solve this coordination and information problem.

In short, a supply-side policy of education and training alone is unlikely to solve the wage equity and employment instability issues that we now face. The supply-side approach must be balanced with policies that ensure workers access to quality jobs, economic security, and employment stability. What would such an expanded labor market look like? To provide a framework for answering this question, we propose four key goals that a national policy should pursue. Each goal addresses a particular dilemma that arises in the post-industrial labor market.

FOUR POLICY GOALS

Constructing external career ladders. From a worker's standpoint, frequent job changes might be tenable if they are accompanied by advancement to higher positions and if benefits are portable across employers. Thus analysts are calling for labor market institutions that support "multi-employer careers," allowing workers to shift among firms according to demand, but gain portable and recognized skills in the process. So that upward mobility can occur across different organizations, worker training would need to be long-term and generalized, not just short-term for immediate firm needs. This raises problems for employers that are not easily overcome.

Constructing or strengthening internal career ladders. Internal labor markets are often seen as unsustainable in a highly competitive economic environment. Yet in some industries and niches, the nature of work and certification lends itself to a graded system of upward mobility, as skills are progressively gained at each level. Thus, internal labor markets may make sense for certain occupations and industries. This can mean better training across positions and a stronger commitment to internal promotion. Or it can mean creating entirely new promotion ladders where none existed before, and here the burden on the firm is significant.

Improving low-wage jobs. Policies focused only on mobility ladders are not enough. Despite expectations, a greater emphasis on customer service, teamwork, and modern technology has not upgraded the quality of entry-level, low-skill jobs (Bailey and Bernhardt 1997). Since such tasks as preparing hamburgers, cleaning hotel rooms, and ringing up sales may not be significantly transformed, an important policy goal continues to be the guarantee of a livable income for low-skill work. In the past, this is what the unionized manufacturing sector achieved for front-line, semi-skilled workers. There are other ways of achieving this goal besides unions (e.g. the minimum wage), but in all cases, the labor costs to firms will be significantly affected.

Labor market coordination. Increased movement of workers between employers raises coordination issues. In the past, employers and workers found each other by relying on informal networks, headhunters, private job-matching firms, and public agencies. This ad hoc system does not respond well to rapid changes in skill requirements and a faster cycle of job openings. Intermediary institutions could serve as clearing-houses for information about job openings and requirements. If these institutions yield more efficiency in the job match and in the signaling of demand, then they should prevail with very little commitment on the part of employers.

POLICY MODELS FOR A CHANGED LABOR MARKET

These goals are straightforward, but what are the best strategies for pursuing them, and which are the most feasible on a national scale? To answer these questions, we have examined a diverse set of programs and proposals from around the country that move beyond traditional workforce development. We have distilled these approaches into four key policy models.

Joint union-employer initiatives

This model, more than any other, addresses all four policy goals: multi-employer career ladders, internal labor markets, improving entry-level jobs, and labor market coordination. In these programs, employers make a commitment to wage growth, job security, and upward mobility, in return for greater flexibility in how workers are deployed. The amount and depth of training for workers is significantly increased, and numerous, rigid job titles are collapsed into a small number of broadly defined jobs. Firms can therefore adjust workloads and tasks according to need, but workers also benefit through cross-training and skill upgrading. Comprehensive participation by employers as well as unions is critical to the success of these programs.

A well-developed example of this model is the Wisconsin Regional Training Partnership, a consortium of manufacturers, unions, and public-sector partners in the Milwaukee metropolitan area. At the core of the Partnership are a series of channels for communication and planning between employers and unions, such as working groups focused on plant modernization and peer adviser networks to share best practices. Most of the employers either have or will have an on-site training center to provide continuous training and skills upgrading. A key component is the development of industry-specific skill standards, by employers, unions, and technical colleges in the region. The Partnership has also embarked on two major initiatives to systematize access to entry-level jobs (a youth apprenticeship program and a training program for central city residents).

This model has great potential. Even incipient initiatives have realized important gains in worker welfare without sacrificing productivity and profits (Dresser and Rogers 1997). Unfortunately, the key to success—collective employer participation—is the most challenging element. While employers may ultimately benefit, union pressure is usually the main force convincing them to participate. In the absence of unions, employers (especially in low-wage industries) have strong disincentives. In some sectors, a low-wage, high-turnover, cost-cutting strategy is the most effective, and it is difficult to conceive of collaborative strategies that would yield enough profit gains to offset the costs of higher wages and benefits. However, a low-wage business strategy has its own set of costs, often leading to absenteeism, turnover, and lack of worker commitment. The traditional internal labor market solved these incentive issues, and the new joint initiatives can also address them.

Worker-based organizations

One important model which sidesteps the employer problem completely is that of a worker-based organization. This structure explicitly works external to employers and instead pools resources across workers, sometimes going as far as competing in the labor supply market. For example, Working Today in New York is a membership organization that provides its temporary workers and independent contractors access to group rates on health insurance, basic training, and job-finding networks, as well as political advocacy.

Working Partnerships in Silicon Valley helped to broker an agreement between the Service Employees International Union (SEIU) local and two employers, the County of Santa Clara and the West Valley Community College. The agreement provides representation for temporary clerical workers, coordinates their deployment, and provides training and certification by way of skills upgrading. Working Partnerships hopes to draw more local employers into the agreement, eventually allowing for the creation of multi-employer careers for the temporary workers. Finally, the most ambitious form of this model is the employee-owned company, which competes in the marketplace by offering job-matching services or by assuring high-quality workers on demand.

This model effectively gives up on the idea of changing the behavior of employers. Nonetheless, bringing it to scale is highly problematic. There is no strong history of worker organizations other than [illegible]s in America, so there are few legal structures to nurture and protect such organizations. The best chance for this model to succeed is in labor markets that have become occupation-based. Temporary workers are probably the best current example, and it should be noted that temp workers increasingly include highly skilled professionals such as lawyers and health care workers.

Intermediary institutions

The labor market coordination model—intermediary institutions that play match-maker in the labor market—eschews any binding commitment by firms or workers and simply focuses on making the free market more efficient. The goal is to provide better information about both job openings and labor supply, and then to coordinate the process by which the two are matched, reducing the costs of hiring and job searches.

This straightforward approach is being pursued in a number of arenas. The goal of the Department of Labor's One-Stop Career Centers is to provide integrated services for job-seekers and employers. On the Internet, the system has listed more than 750,000 job openings and a similar number of job seekers' resumes. These listings will be supplemented with local and national occupational projections, along with the qualifications required by each occupation. The One-Stops also serve as a referral center to training and education institutions in the local area.

This model is clearly the easiest to implement and the one most likely to prevail. But it is unlikely to reverse the trend towards growing wage inequality and employment instability. The One-Stop Centers have to fight the perception that government programs serve only the low end of the market. It is possible that public institutions will help low-skilled workers get GEDs and place them in semi-skill jobs, while private companies will create their own elite job-matching systems, and employers such as McDonald's and Wal-Mart will side-step these institutions altogether and continue to play the low-wage labor market.

Legal and legislative reform

The fourth model is the legislative approach: effecting change through laws and regulations at the federal, state, or local level. It is important to understand, however, that legislative reform is also critical to the success of the above three policy models. Almost any attempt to institutionalize a new employment relationship, whether multi-employer, worker-run, or market-based, needs to be supported by new laws and regulations in one or more areas.

Raising the wage floor

Absent widespread unionism, the simplest solution to the problem of low-wage jobs is to raise the minimum wage. In real terms, the minimum wage declined by more than 31 percent between 1979 and 1989 (Mishel and Bernstein 1994). The increases in the 1990s made up only part of the lost ground, yet even that was a hard-fought battle, as the debate continues over whether negative employment effects follow from raising the minimum wage.

Creating portable benefits

Besides wages, portable benefits are the most important issue for workers today. The current structure of health care and pension benefits mitigates against portability. Single employers have their own pension and health care plans, and the rules governing participation are idiosyncratic to each case. In the absence of multi-employer bargaining or an agency such as TIAA-CREF, a significant number of employers in a given region or sector must be convinced to participate. Even then, an enormous amount of coordination is required to reconcile different tenure and vesting rules, and group health care policies that have different negotiated prices.

Unemployment insurance reform

The present Unemployment Insurance system assumes long-term employment with one company and views unemployment as a temporary lay-off, to be followed by return to the same employer. The UI system thus does not accommodate short stays with a series of employers, regularly interrupted by spells of unemployment. Currently only a third of the unemployed receive UI benefits (McMurrer and Chasanov 1995). Temporary, part-time, and seasonal workers, and independent contractors, are often not eligible for benefits because

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by the nature of their work, they may not accumulate a sufficient number of months of continuous employment or a certain level of total earnings. Significant reforms are clearly in order.

Labor law reform

Union organizing within the National Labor Relations Board (NLRB) framework currently faces two severe obstacles: an interminable certification process, and routine labor law violations and delaying tactics by employers. A number of proposals aim to address both problems, but even if implemented, such reforms will cover "traditional" workers only. They will not cover professionals, managers, or contingent workers. As a result, nonstandard employees are "effectively barred" from collective representation (Cobble 1991).

The Wagner Act model of unionism is single-site unionism; wages and job rights are linked to particular positions within a particular firm. This model falls apart when work occurs across different firms with different wage levels and seniority rules, where the distinction between labor and management is blurred, and where increasingly it is occupations and not firms that define labor markets.

Tax incentives for high-road practices

The use of tax subsidies or other financial incentives to encourage firms to adopt high-performance practices has received attention in recent years. In several European and Asian countries, firms are taxed a certain percentage of payroll for training. If the firm actually provides that level of training, the tax is refunded; otherwise, the difference is paid to government training programs. However, this is a limited policy. The ideal approach would be to link tax incentives to broad workplace reforms, so that, for example, the training provided is not just firm-specific but generalizable and portable.

SUMMARY AND CONCLUSIONS

Economic, technological, and political changes have created a new employment relationship characterized by an externalized labor market and more tenuous ties between workers and employers. The growing wage inequality of the [illegible] twenty years has not been reversed [illegible]e economic boom of the 1990s. Although policy makers have focused on education and training, a supply-side response will not be enough to protect workers. What is needed is a comprehensive demand-side policy that meets four goals: (1) multi-employer career ladders; (2) strengthened internal labor markets; (3) improvements in the quality of low-wage jobs; and (4) a stronger system of labor-market coordination.

We have identified four distinct policy models for pursuing these goals. The two most powerful are joint initiatives between unions and a group of employers, and legislative and legal reform. The first depends heavily on employer participation, yet many employers seem to be profiting from the system that has created the current job instability and insecurity. And the current political climate makes legislative and legal reform of unemployment insurance and health and benefit coverage unlikely. A third policy model, worker-based organizations (e.g., worker-run hiring halls or temp agencies), is potentially powerful but will have little effect if employers do not use them. The fourth—intermediary institutions that simply coordinate the workings of the labor market—is relatively easy to implement but addresses only one of the four policy goals.

Broad institutional and legislative changes are necessary to bring about significant improvements in wages and employment, but these changes will occur only when there is stronger support for them. In the meantime, it is important to pursue the policy developments discussed in this paper, particularly joint union-employer initiatives, since these hold the most promise. The more examples that can be found of employers and unions working together to improve both firm performance and job quality, the easier it will be in the future to convince others that these efforts deserve more than moral support.

This Brief is based on a report prepared as part of the William T. Grant Foundation workshop, "New Employment Policies for the Emerging Post-Industrial Labor Market," held on May 16, 1997. The full report will be available from the IEE in early 1998.

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