Melting into Air? Downsizing, Job Stability, and the Future of Work

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INTRODUCTION

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 in corporate downsizing is the signal occurrence of our postmodern age, with ramifications far beyond the labor market.1 As careers condense, so do our time horizons and relationships. What Sennett 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."2

Recent layoffs at ARCO, Heinz, Pillsbury, and other companies refute the claim that the downsizing phenomenon is spent. The latest figures from Challenger, Gray & Christmas show that workforce reduction announcements presently are at the same level as during the early 1990s recession. And data from the U.S. Bureau of Labor Statistics on actual, as opposed to intended, layoffs show that the number of workers affected by mass layoffs in fall 1998 rose above levels reached a year earlier.3 On the other hand, the current unemployment rate is at its lowest level in two decades. Thus, we

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2. Id.
have the paradox of rapid job creation amidst continuing job destruction.

It is not surprising, then, that despite the stock market rise and low unemployment, many Americans remain anxious about job security. The share of employees who say they are frequently concerned about layoffs has risen from 12% in 1981 to 37% in 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.

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. Understanding the history of welfare capitalism is essential to fathoming what is happening in today's labor market. Welfare capitalism shaped our nation's risk-sharing institutions—the same institutions whose future is being questioned by Sennett and others.

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 structure the employment relationship now gives more weight to market factors, especially in managerial positions.

4. See Susan McInerney, Greenspan Says Job Insecurity Still High; Data Show More Dissatisfaction with Pay, DAILY LAB. REP. (BNA) No. 31, Feb. 17, 1999, at AA-1. The share of workers worried about losing their jobs is down from what it was in 1997—from 44% to 37%. See id.

5. See Karen Pennar, Ten Years of Downsizing and Widening Income Inequality Have Taken an Enormous Social Toll. U.S. Workers Are Losing Faith in Their Ability to Prosper, BUS. WK., Mar. 11, 1996, at 50, 50.

There also has been a change in risk sharing, with employers transferring more of the burden to employees. But 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. In what follows, I will discuss that structure's origins, document the extent of change in recent years, and analyze the prospects for welfare capitalism's future.

I. ORIGINS OF WELFARE CAPITALISM

American welfare capitalism began in the nineteenth century, when the population started moving in large numbers from rural to urban areas. This transformation forced people to seek new ways of dealing with the uncertainties of life. City-dwelling workers could no longer rely on homegrown food to get them through a spell of joblessness. The elderly, who were an important part of rural family life, found that industrial corporations were reluctant to employ them. Young unmarried women began to work outside the home, raising parental concern for their morals. Meanwhile, dangerous factories and crowded cities brought on occupational injuries and other health problems.

One response to these new forms of risk was market individualism: workers saved as best they could while taking fierce pride in the independence that came from having a well-rounded set of skills. Another strategy was to form mutual benefit associations to provide savings funds, health plans, and burial benefits. Some of these associations grew into insurance companies; others grew into trade unions. An alternative to individualism and mutualism was government, which sought to indemnify risk through protective legislation or to redistribute risk via social insurance programs. The idea here was the same as the European welfare state—that is, to pool risks by providing all citizens with unemployment, sickness, and old-age security. A fourth option was to have corporations reduce risk or protect their employees against it. This option, essentially, was welfare capitalism. To Americans concerned about the labor question of the early twentieth century, welfare capitalism offered a distinctive answer: the business corporation, rather than government or trade unions, would be the source of security and stability in modern society.7

By the beginning of the twentieth century, welfare capitalism could be found throughout the industrialized world, but it was especially popular in the United States. American employers favored welfare capitalism because they thought it would inhibit the growth of unions and government. And they saw it as an efficient alternative to market individualism—training would be cheaper and productivity higher if employees spent their work lives with a single firm instead of seeking their fortunes on the open market. There was also a moral impulse behind welfare capitalism: self-made business owners felt a sense of stewardship to their employees. In short, welfare capitalism was a good fit for a distinctive American environment comprised of large firms, weak unions, and small government.

Welfare capitalism was an influential movement in the late nineteenth and early twentieth centuries. It was embraced by employers as well as by intellectuals, social reformers, and political leaders. All shared the belief that industrial unrest and other problems could best be alleviated by this distinctively American approach: private, not governmental; managerial, not laborist. To put these ideas into practice, employers cleaned up their factories, constructed elaborate recreational facilities, launched “company” unions, and even built housing for their employees. They turned casual jobs into more stable positions, offering pensions and other benefits. By the 1920s, welfare capitalism reached millions of workers at thousands of firms. It was an impressive if imperfect edifice, a system whose notions of order, community, and paternal responsibility recalled the preindustrial household economy. The firms pursuing welfare capitalism were, in effect, modern manors.8

But the edifice crumbled during the Great Depression. Companies cut wages, instituted massive layoffs, and discontinued most of their welfare programs. Economist William Leiserson, who earlier had been dazzled by welfare capitalism, wrote pessimistically in 1933 that the Great Depression had “undone fifteen years or so of good personnel work.”9 In 1933, workers searched for alternatives to safeguard their security. They voted for the Democratic party,


supported the New Deal, and enthusiastically joined unions. Essentially what the new unions achieved was the extension, codification, and joint administration of welfare capitalist initiatives. Welfare capitalism—at least the nonunion version of it—appeared to be dead and gone.

Or was it? In fact, welfare capitalism did not die in the 1930s but instead went underground—out of the public eye and beyond academic scrutiny. There it began to reshape itself. Without doubt, welfare capitalism had to change if it was to survive what was becoming a hostile climate in which company unions were unlawful, collective bargaining was public policy, and the new American welfare state promised to shield workers from the uncertainties of industrial life.

In response to these challenges, welfare capitalism gradually was modernized by a group of firms that had been spared unionization and the ravages of the Great Depression. In my recent book, Modern Manors, I focus on three such companies—Kodak, Sears Roebuck, and Thompson Products (today TRW). These companies were exceptions to the “rise and fall” story of welfare capitalism; each one made major contributions to welfare capitalism’s modernization between the 1930s and 1960s, the period when labor and government activism were at a peak in the United States.

In their attempts to build “modern manors,” these companies retained many elements of earlier welfare capitalism. Kodak, Sears, and Thompson provided generous benefit plans to their employees, though these plans were redesigned as supplements to Social Security and other public programs. At the same time, each company still asserted that it was a corporate community whose cohesion stood in opposition to the occupational and industrial solidarity of the labor movement. But employers had to be more careful to make sure that their attempts to build an industrial community did not violate the new labor laws, such as the Wagner Act.

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Historians have written a great deal about welfare capitalism during the first three decades of this century, and there is an abundance of articles about today’s progressive employers. But we know very little about welfare capitalism during the period from the 1930s to the 1960s. Explanations for this gap are not hard to find. Industrial relations experts were preoccupied during the 1940s and
1950s with forging a new labor relations system based on collective bargaining. These experts thought collective bargaining would protect individuals from the political power of business and from the psychological demands of bureaucratic work organizations. They saw unions as a way to preserve independence in the modern world. (That is the same message they brought to Japan during the postwar occupation.) But because these experts gave the labor movement such an important historical function, they viewed nonunion companies as socially retrograde and undeserving of scrutiny.

One result of this blind spot was the erroneous impression that organized labor had achieved greater stability and acceptability than actually was the case. During the 1930s and 1940s, many American workers joined unions. But it was also the case that many workers did not join unions. At its peak after the Second World War, the labor movement represented less than one-third of nonagricultural workers, and its strength was concentrated in only a few regions and sectors. Just three sectors—construction, manufacturing, and regulated transport and energy utilities—accounted for more than 80% of organized labor at its peak. Although much has been written about recent union losses in representation elections, this trend actually started long ago, during the Second World War.

Back in the 1940s, even the automotive industry—a hotbed of unionism—was filled with anti-union individualists, many of them skilled workers who boasted of their superior experience, dedication, and loyalty. Then there were groups like African American workers, who were skeptical of both unions and management but willing to give management the benefit of the doubt so long as it kept its promises, especially about employment security, a critical issue for workers who lived through the Great Depression.

As for management, its acceptance of unions after the war has also been overstated. True, it was possible to find employers like John Rovensky, a prominent industrialist, who said in 1952 that "[a]ll

sound-thinking businessmen today recognize the right of labor to collective bargaining. Unions are an absolute necessity." But Rovensky's words masked a division between management's public pronouncements and its private beliefs. In truth, most American managers intensely disliked unions. As two experts from MIT said in 1957, "if American management upon retiring for the night, were assured that by the next morning the unions with which they dealt would have disappeared, more management people than not would experience the happiest sleep of their lives." 

American managers were shaken by the Great Depression and demoralized by the rise of mass unions and the New Deal. But, by the end of the Second World War, they were regaining confidence and starting to take aggressive steps to contain unionism. The effort to get the Taft-Hartley Act passed was one example; another was General Electric. Although GE was often cited as a union-friendly firm, in the 1950s it began to move its plants from the unionized north to the nonunion south. It also started to take a more combative approach toward its unions. Finally, it developed a variety of new programs for securing the loyalty and commitment of its employees. Some of these programs were old-fashioned welfare benefits. Others were based in the behavioral sciences, such as attitude surveys and employee counseling. In designing these programs, GE looked for inspiration and ideas from those employers who had modernized welfare capitalism—companies like Du Pont, Eli Lilly, IBM, Kodak, Procter & Gamble, Sears, S.C. Johnson, Standard Oil, and Thompson Products. In this way, modern welfare capitalism spread from a minority of employers to a much larger group of American companies.

In the 1960s and 1970s, social and economic changes helped modern welfare capitalism to diffuse more rapidly. These changes included the movement of jobs away from heavy industry and the growing importance of educated workers. Modern welfare capitalism's emphasis on commitment proved well suited to managing college-educated workers, who were becoming the dominant group in the labor force. Modern welfare capitalism also meshed neatly with

15. See JACOBY, supra note 8, at 220-35.
the participative principles that were replacing the old scientific-management approach to work organization. When management scholars identified in the 1980s a "new" nonunion model of work organization, it was, in fact, not especially new. It was simply a variant of modern welfare capitalism.\footnote{See id. at 254-59.}

Even in the 1960s, at the peak of the postwar boom, welfare capitalism failed to reach all workers. Some employers—especially, but not exclusively, in smaller enterprises—were unconcerned with the niceties of employee commitment and did little to mitigate risks for their employees. Yet while welfare capitalism was not the universal mode of employment, it remained the standard for judging job quality throughout the labor market.

II. THE CRISIS OF WELFARE CAPITALISM?

During the past twenty years, however, modern welfare capitalism has been experiencing 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 have all 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 high school educations and males with college educations narrowed by more than half between the early 1980s and the mid-1990s.\footnote{See Lori G. Kletzer, Job Displacement, 12 J. ECON. PERSP. 115, 119 tbl.1 (1998). In manufacturing, job loss rates in the mid-1990s were half the level observed in the early 1980s. See id.; see also HENRY S. FARBER, THE CHANGING FACE OF JOB LOSS IN THE UNITED STATES, 1981-1993, at 15-17 (Nat'l Bureau of Econ. Research Working Paper No. 5596, 1996).} Companies that had never experienced a major layoff—firms like IBM, Kodak, and Digital Equipment—began to jettison 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 layoffs.
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% of large multinational corporations report that they have reorganized their headquarters since 1990.18 And managers continue to dominate the downsizing figures. According to the American Management Association, about half the jobs eliminated in 1998 belonged to managers and supervisors, up from 32% in 1997.19 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 for change.20

Meanwhile, there has been an expansion of so-called nonstandard employment: jobs that are temporary, part-time, or contractual. The most recent data show that in 1995 approximately 30% of all employees held nonstandard jobs.21 (The self-employed accounted for 5.5%).22 There is a stratum of contingent workers—those on contract—who are well paid. But other contingents are more likely to be paid a low wage, and are one-sixth as likely to receive employer-provided health and pension benefits compared with those in standard full-time jobs.23 In fact, most of the decline in health insurance coverage since 1979 has been the result of cutbacks for contingent workers.24 Coverage has also declined for some of those holding standard jobs, notably less educated males.25

22. See id.
23. See id. at 30–31 tbls.18–19.
It is not surprising, then, that today’s employees hold negative views of their employers. In one survey, the share of employees who said management was generally respected fell by one-seventh between 1990 and 1997 (from 58% to 50%). Other indicators of employee loyalty also are on a downtrend. Another survey found that more than half of American employees said they would switch jobs for a pay increase of 20% or less.

Accompanying these changes has been a new ethos of market individualism, especially in places like Wall Street and Silicon Valley where there is intense competition for skilled workers and a rapidly changing knowledge base. These workers—predominantly young and educated—have grown skeptical not only of welfare capitalism but also 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 Great 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 titled Corporate Executions: The Ugly Truth About Layoffs—How Corporate Greed Is Shattering Lives, Companies, and Communities. 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 a 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" and an accelerating pace of innovation and productivity. But economic statistics show that productivity growth today actually is slower than it was during the first two decades after the Second World War. Paul Krugman, a fellow curmudgeon, points out: "Of course, there is plenty of change in today's economy, but there's a lot more underlying stability in the rules of the game than most people imagine."  

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. And 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. In understanding the paradox of continuity amidst 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" (through downsizing) and job "births" (new jobs).  

Despite downsizing, the U.S. economy has been adept at maintaining a high birth rate of new jobs, the majority of which eventually will become long-term positions.


A. Stocks and Flows

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 have consistently found 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.31

For men aged 35 to 64, the share employed more than ten years with their current employer fell from 50% in 1979 to 40% in 1996.32 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).33 However, during the same period there was an increase—albeit slight—in the share of those aged 45 to 64 who are employed in long-term positions in service occupations and industries.34 Partly for this reason, female tenure has shown a different pattern: for women aged 35 to 64, the share employed in long-term positions rose slightly between 1979 and 1996.35 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.


33. See id. at 30 tbl.2.

34. See id. at 31 tbl.3.

35. See id. at 29 tbl.1.
The unadjusted data for the period 1983 to 1998 show similar trends. For males over twenty-five years old, the percentage who worked for their current employer for ten years or more fell modestly from 38% to 33%; for women that age, the percentage increased from 25% to 28%, 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.

If the analysis is limited to large firms, the evidence of job stability is even more striking. For fifty-one large companies that were clients of Watson Wyatt, a consulting firm, average tenure actually increased in the 1990s, as did the percentage of employees with ten years (and twenty years) of service or more. Even in the firms with shrinking employment, the odds that a worker would be with the employer five years later were higher than that for the labor market as a whole.

What about data on employee separations (i.e., layoffs, dismissals, and resignations)? 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. And 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, positions 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. Data from the Panel Study of 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

37. See id. at tbl.5.
39. See id. at 23.
40. See U.S. BUREAU OF LABOR STATISTICS, WORKER DISPLACEMENT DURING THE LATE 1990S, REPORT NO. 00-223 (2000), for a description of the DWS.
41. See FARBER, supra note 24, at 11-12.
stood a greater chance of dismissal. But 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 to 35) and middle-aged (41 to 55) workers, while rising sharply for workers in the 56 to 60 age bracket.

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 said they would seek new jobs with other employers in the coming year. Workers, in other words, are neither more nor less inclined to hop jobs than they were twenty years ago.

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.

44. See id. at 24 tbl.2. 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 ET AL., supra note 31, at 26.
45. See BANSAK & RAFAEL, supra note 43, at 18, 27 tbl.5.
47. See SENNETT, supra note 1, at 21.
48. Id.
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 comprised 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 one to eight 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 to 64. "Long-term employment relationships" says economist Henry Farber, "remain an important feature of the U.S. labor market."

B. 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, Kodak, Mobil, and Xerox. 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.

50. See FARBER, supra note 32, at 29-31.
52. FARBER, supra note 24, at 25.
53. These data were drawn from Compustat listings for U.S.-based companies for the period 1990 to 1997. Compustat is a computer database containing financial and other records of publically traded U.S. corporations. Companies whose employment was affected by merger or liquidation were not included in the sample. For example, MCI and Worldcom merged late in 1998. See Standard & Poor's Institutional Market Servs., Standard & Poor's COMPSTAT databases, at http://www.compustat.com/cgi-www/product.cgi?id=db [hereinafter Standard & Poor's].
54. See Standard & Poor's, supra note 53.
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.\textsuperscript{56} And, 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 contingent workers, like Kelly Services (up 172,000) and Robert Half (up 117,000).\textsuperscript{57}

But 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.\textsuperscript{58} 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 and Home Depot—added nearly 200,000 jobs.\textsuperscript{59} In the communications industry, AT&T contracted, but SBC, MCI, Worldcom, and Motorola added many more jobs than AT&T cut.\textsuperscript{60} 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).\textsuperscript{61}

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, these jobs are far from being short-term

\textsuperscript{57} See Standard & Poor's, supra note 53.
\textsuperscript{58} See id.
\textsuperscript{59} See id.
\textsuperscript{60} See id.
\textsuperscript{61} See id.
positions, a point examined in greater detail below. Hence, the new
jobs will boost median tenure levels in years to come.62

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. But 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 plants and equipment, which gave rise to a new
phrase, “technological unemployment.”63 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 like 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 were employed more than doubled in the 1920s over the rate
that existed between 1899 and 1914.64 During the Great Depression,
however, contraction of these newer industries was less severe and
recovery more rapid than average; ultimately, these industries were
the ones on which the postwar economy was based.65 Finally, the
1920s were a decade of growing, but unevenly distributed, prosperity,
and some economists believed that the decade’s disparities in income
and wealth were a contributing factor to the Great Depression. All of
this should sound eerily familiar, absent, one hopes, the stock market
crash and depression that brought the decade to a close.

62. Precisely where a company fits in these classifications is difficult to judge. For example,
Wed-Mart, which created over 500,000 jobs since 1990, has a high proportion of part-time jobs.
But it is listed by Fortune magazine as one of the nation’s top 100 employers because it
extensively promotes from within and invests heavily in employee training. See The 100 Best
Companies to Work for in America, FORTUNE MAGAZINE, at http://www.fortune.com/for-
tune/bestcompanies. The top 100 list also includes several of the companies mentioned in the
text, such as Intel and Merck. See id. Another list—the “most admired companies”—includes
Dayton-Hudson and Tyco. See The Most Admired Companies, FORTUNE MAGAZINE, at http://
www.fortune.com/fortune/mostadmired. Keep in mind that one reason companies no longer
tout explicit no-layoff policies is the spate of dismissal suits in recent years. Plaintiffs sometimes
have won by claiming breach of an implied promise to provide continuous employment. Such
promises were contained in employee handbooks and other personnel policies. See 1 HENRY H.

63. JACOBY, supra note 8, at 168.

64. See id. at 167-70.

65. See MICHAEL A. BERNSTEIN, THE GREAT DEPRESSION: DELAYED RECOVERY AND
C. 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 for 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. 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.

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. But while growth has been rapid, it started from a small base. Currently, less than 2% 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. (Temporary 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.

As for part-timers, some 13% of the labor force is employed part-time on a regular basis. That figure is higher than in the 1970s, but not by much. In fact, the share of part-timers currently in the

66. See FARBER, supra note 24, at 24.
67. See id.
68. See id.
69. See id. at 40.
74. See KALLEBERG ET AL., supra note 21, at 9 tbl.1.
labor force is only one percentage point greater than in 1973. Moreover, for the period since 1980, there is no evidence that new jobs are more likely to be part-time than old jobs. Finally, bear in mind that around 80% of part-timers are in those positions voluntarily—they are not seeking full-time jobs—and some have a significant stake in the companies for which they work.

Growth of contingent jobs has leveled off recently. As a share of the labor force, contingent employment actually declined slightly since 1995. One explanation for this is the recent tightening of labor markets. For those whose contingent 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 standard positions.

D. Cyclical Factors

Labor markets are affected not only by structural, 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 most of the period since the mid-1970s. But 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 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,


77. See Employment Arrangements, supra note 72, at 1.

years ago, low unemployment enhances the bargaining power of employees and their ability to get employers to shoulder risks for them.\textsuperscript{79} When labor markets are slack, power is on the employer's side; workers are sedulous and meek. When unemployment rates are low, the tables are turned; employers are more inclined to accommodate worker demands. Indeed, it is revealing that Kalecki published his essay during the Second World War, a time when labor was scarce and unions were 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.\textsuperscript{80} 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.\textsuperscript{81}

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.\textsuperscript{82} An additional 15\% are working part-time or at home, and 15\% left the labor market.\textsuperscript{83} 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


\textsuperscript{80} See Jacoby, supra note 8, at 145.


\textsuperscript{83} See id.
be suffering earnings declines than workers laid off in the early 1990s: 38% experienced earnings declines in the past two years, versus 55% 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.

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.

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." 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. Because of this, 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."

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 twenties and early thirties were simply responding to the mantra they have heard employers chanting for the last ten years: that everyone should expect to change jobs regularly, 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."

While corporate restructuring continues, companies are trying harder now than several years ago to minimize layoffs and retain skilled employees. When the Asian crisis hit Silicon Valley in early 1998, companies responded by cutting hours and reassigning workers. Raytheon recently cut 2,700 engineers from its defense arm but offered them jobs elsewhere in the company.91 Throughout technology industries—and in other parts of the economy—human resource managers are obsessed with the problem of recruiting and retaining workers. It is a different world than five years ago.

E. Benefits

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 to health insurance by their peripheral short-term and part-time employees."92


92. FARBER & LEVY, supra note 25, at 25. 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
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.\textsuperscript{93} For mature workers and college graduates, however, the coverage decline was modest; for women there was a slight increase in coverage.\textsuperscript{94} 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.\textsuperscript{95} 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\% for those employed in mid- to large-size establishments.\textsuperscript{96} As for pensions, 63\% of full-time workers and 21\% of regular part-time workers are covered by employer-provided retirement plans, with coverage rising to 79\% in mid- to large-size establishments.\textsuperscript{97} 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-one major corporations pledged to invest millions of dollars to make child and elder care tailored benefit plans permitting employees to pick and choose benefits. In 1988, 13\% of big companies gave employees this option; now over half do. See Compensation in America: Unto Those That Have Shall Be Given, ECONOMIST, Dec. 21, 1996, at 91, 91.\textsuperscript{93} See David E. Bloom & Richard B. Freeman, Trends in Nonwage Inequality: The Fall in Private Pension Coverage in the United States, 82 AM. ECON. REV. 539, 539 (1992).\textsuperscript{94} See John R. Woods, Pension Coverage Among the Baby Boomers: Initial Findings from a 1993 Survey, SOC. SECURITY BULL., Fall 1994, at 12, 12, 14; see also William E. Even & David A. MacPherson, Why Did Male Pension Coverage Decline in the 1980s?, 47 INDUS. & LAB. REL. REV. 439, 443 tbl.1 (1994) (presenting data on the decline of male pension coverage in the 1980s).\textsuperscript{95} See Employee Benefits in Medium and Large Private Establishments, 1997, NEWS (Bureau of Labor Statistics, U.S. Dep't of Labor), Jan. 7, 1999, at 3-4 & 13 tbl.11 [hereinafter Employee Benefits]. "Rising rates of pension coverage, participation, and vesting during the period 1987–1991 reversed a four-year decline." Pension Plans, EMPLOYEE BENEFIT PLAN REV., Apr. 1994, at 40, 41-42. If employers, in fact, move radically away from providing retirement benefits, employees would likely respond by saving at much higher rates. But as is well known, despite the recrudescence of ideological market individualism, the U.S. private savings rate has steadily trended down since the early 1980s.\textsuperscript{96} See FARBER & LEVY, supra note 25, at 29 tbl.1, 30 tbl.2; Employee Benefits, supra note 95, at 9 tbl.5.\textsuperscript{97} See KALLEBERG ET AL., supra note 21, at 31 tbl.19; Employee Benefits, supra note 95, at 13 tbl.11.
more available. The companies included such paragons of modern welfare capitalism as Hewlett-Packard, IBM, Mobil, and Texas Instruments.

F. Wage Policies

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 over two hundred large firms over the last forty years. It finds no evidence of a decline in the magnitude or persistence of employer wage premiums for individual occupations and groups of occupations. This suggests a high degree of stability to the extent which employers base their long-term wage strategies on organizational rather than market considerations.

98. See Women's Bureau: Twenty-One Companies Pledge to Invest $100 Million for Dependent Care, DAILY LAB. REP. (BNA) No. 192, Oct. 4, 1995, at A-5.
99. See id.
101. See id. at 31.
G. Training

A proxy measure of employer commitment to incumbent employees is the extent to which employers make human capital investments through training and education programs. Unfortunately, the data on formal employer-provided training are not highly reliable. Be that as it may, employee surveys show that, during the 1980s, the duration of employer-provided training declined, but the incidence of training intended to improve workers' skills increased. Employer surveys show training expenditures increasing at most companies in the 1980s and 1990s; only a minority were cutting expenditures.

Conversely, there is evidence that individuals today are more likely to pursue training on their own. Participation in adult education activities rose significantly between 1991 and 1995 (from 32% to 40% of adults), with about half of these being work-related courses. The likelihood of enrolling in such courses rose with educational attainment, with the highest enrollment rates among college-educated workers. This is the strongest evidence in support of the notion that workers are assuming more responsibility for managing their careers, but the data should be used with caution. Sixty percent of those enrolled in work-related courses were taking them from business and professional associations, where tuition is often paid for by the employer. Thus, the data also are consistent with the interpretation that employers are outsourcing employee training, not doing less of it.

III. EXPLAINING THE PARADOX

To summarize, a variety of sources have been examined to assess the degree of change in career-type employment practices. Without doubt, 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


103. See Peter Cappelli et al., Change at Work 131 (1997) (discussing job training programs and practices).


105. See id.

106. See id.
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 those in service occupations
and industries, long-tenure employment has become more prevalent
over the last twenty years. And 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. Organiza-
tional 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 the sociology of norms and the politics of punditry.

A. Perceptions, Norms, and Power

A stream of research in cognitive psychology documents the
pervasiveness of loss aversion: people weigh losses—like layoffs—
more heavily than gains. The job losses of the past ten years have
weighed heavily on the nation's middle classes because they involve
the 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

107. See, e.g., Daniel Kahneman & Amos Tversky, Prospect Theory: An Analysis of
Decision Under Risk, 47 ECONOMETRICA 263 (1979); Howard Kunreuther, Limited Knowledge
108. See Kletzer, supra note 17, at 119 tbl.1.
nation . . . In February we were told half the jobs would be gone.”

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, like that involving General Dynamics or the more egregious case of Al Dunlap, former CEO of Sunbeam.

While employers claim that they must downsize to become globally efficient, people remain skeptical that business necessity is the main reason for downsizing. In late 1995, a New York Times poll found blame for job loss being apportioned almost equally between business corporations and foreign competition. The public believes that a more turbulent competitive environment is only partly responsible for the rise in layoffs; the other part is normative. In other words, holding economic conditions constant, people think that employers today are less inhibited to make job cuts than in the past. They see downsizing not only as an economic issue but also as a moral issue: a weakening of the norm that says that ethical employers engage in layoffs only as a last resort.

Various explanations have been offered for the norm shift: (1) the fading legacy of the Great Depression, the severity of which created a preference for stability among the generations affected—directly or indirectly—by the 1930s; (2) the weakening of


110. See Sanford M. Jacoby, Editorial, “Chainsaw Al” Gets His Due Business: There Is a High Road and a Low Road to Sharing Corporate Risks with Employees, L.A. Times, June 18, 1998, at B9. 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, although this negative reaction is smaller than in the 1970s. But when downsizing is combined with asset restructuring, there is a positive effect on stock returns. See Henry S. Farber & Kevin F. Hallock, Have Employment Reductions Become Good News for Shareholders? 20-21 (Indus. Relations Section, Princeton Univ. Working Paper No. 417, 1999); Wayne F. Cascio et al., Financial Consequences of Employment-Change Decisions in Major U.S. Corporations, 40 Acad. Mgmt. J. 1175, 1175-76 (1997); Kevin F. Hallock, Layoffs, Top Executive Pay, and Firm Performance, 88 Am. Econ. Rev. 711, 711-12, 720 (1998).


112. See, e.g., Alan Wolfe, One Nation, After All: What Middle-Class Americans Really Think About 240 (1998). For an extensive review of the evidence on labor-market norms, one that finds little change in employee norms since the 1970s, see David I. Levine et al., Upjohn Institute, Changes in Careers and Wage Structures at Large American Employers (forthcoming 2001).
organized labor, which played an important historical role in fostering internal labor markets; and (3) a generalized unwillingness to carry burdens for others due to the decline of social solidarity (the so-called “bowling alone” phenomenon) and the celebration of self-interest that started in the 1980s and registered its cinematic climax in the person of Gordon Gekko. Journalists reinforce the perception of employer betrayal by dubbing ours a “Judas Economy,” one whose corporate culture dictates that “anything is acceptable as long as it is legal and makes money.”

But it does not logically follow that the consequence of normative change is the annihilation of career employment. Only if past employer behavior was driven entirely by norms, and only if norms are now thoroughly debilitated, would this be the case. But neither condition holds. First, although a sociological perspective contributes greatly to our understanding of labor markets and other economic phenomena, career employment practices are sustained not only by norms but also by economic incentives—everything from turnover costs to motivation to customer retention—and those incentives retain their organizational logic even in today’s more turbulent business environment. I will return to this point.

Second, normative elements continue to infuse the employment relationship. Today’s labor market is far from the textbook world of the anomic spot market. Employment contracting remains recurring and nonstandardized, hence embedded in a “vast array of norms.” Labor exchange is relational, not neoclassical. Employers today retain a sensitivity to norms—whether they are transmitted by current and prospective employees, by laws like the Americans with Disabilities Act and the Family Medical Leave Act, by the tenets of professional human resource management, by labor unions, or even by their own consciences.

Finally, a good deal of what has been identified as a normative shift is better understood as a change in the balance of power.

115. For a guide to the field, see THE HANDBOOK OF ECONOMIC SOCIOLOGY (Neil Smelser & Richard Swedberg eds., 1994).
between managers, owners, and employees. As recent scholarship shows, our institutions of corporate governance—even our conception of the corporation—were not forged in the crucible of economic efficiency but in the field of power politics. A politically favorable environment in the 1980s permitted changes in governance that gave greater weight to shareholder interests than to the interests of employees and other stakeholders. The balance of power presently appears to favor owners, but the situation is mutable. It can change in response to the “haggling of the market” and to nonmarket mechanisms like political and union action, or the threat of them. In fact, it is changing. For example, as happened last June, the press reported that “business is rediscovering the value of corporate loyalty.” This shows that we are observing a shift in bargaining power—the Kalecki effect—not a secular change in norms.

Fueling the sense of unfairness is a belief that companies are targeting long-tenure workers for layoff. The perception may be accurate. Some, but not all, recent studies provide evidence consistent with the view that permanent separation rates have risen for long-tenure workers over fifty-five years old. During the Great Depression, employers followed a policy of targeting older workers for layoff, believing that those over forty years old were slow and ineffectual. Smoldering resentment over these layoffs helped fuel union demands for strict seniority rules.

But now, unlike the 1930s, many white-collar employees slated for layoff depart their companies on a voluntary basis. That is because there is a trend—which started before the current wave of downsizing—toward shorter careers and earlier retirements. In the United States, labor force participation rates for males aged 55 to 64.


120. Bernstein, supra note 26, at 67.

121. Compare Bansak & Raphael, supra note 43, at 23 tbl.1, 24 tbl.2, 25 tbl.3, 26 tbl.4, 27 tbl.5, 28 tbl.6, 29 tbl.7, 30 app.tbl.1, 31 app.tbl.2, 32 app.tbl.3, 33 app.tbl.4, with Farber, supra note 32, at 20-24. Another study finds that the burden of downsizing has fallen most heavily on junior and senior employees in large firms, with mid-career employees unaffected. See Allen et al., supra note 38, at 22.

122. See Jacoby, supra note 8, at 219.

123. See id. at 244.
dropped from 80% in 1970 to 65% in 1990, a trend also observed in advanced countries like Germany and Japan where there has been relatively little downsizing.\textsuperscript{124} None of this is to deny that there are thousands of older workers who have been devastated by job loss and forced into premature retirement. However, other older workers have not been displeased when offered early retirement, especially when accompanied by golden handshakes.\textsuperscript{125}

\section*{B. Discontinuity Fallacy}

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.\textsuperscript{126} Not only fashion designers but also 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.\textsuperscript{127} Academics have similar proclivities. Enthusiasts for change dramatically pronounce "the demise . . . of organizational careers" and their replacement by something radically different: the "boundaryless career."\textsuperscript{128}

\textsuperscript{124} See Ronald Dore et al., \textit{Varieties of Capitalism in the Twentieth Century}, 15 \textit{Oxford Rev. of Econ. Pol'y} 102, 116 (1999).
\textsuperscript{125} See \textit{Sennett}, supra note 1, at 92. At the University of California in the early 1990s, when the state was experiencing a fiscal crisis, senior faculty were consecutively offered three early retirement plans as part of an effort to reduce costs. Although ordinarily university faculty enjoy relatively high job satisfaction, nearly 50% of eligible faculty at the University of California took early retirement during the first two rounds of the program. In the third round, over a third retired. (Some had turned down the first two rounds, while others were newly eligible faculty.) Other data indicate that, for individuals over 55, 15% of those in career jobs (over ten years) experienced a layoff, while the rate of early retirement with financial incentive was 47%. See Seongsu Kim, Early Retirement Incentives in a Restructuring Organization: The Case of University Professors (1995) (unpublished Ph.D. dissertation, UCLA) (on file with the UCLA Library); see also Peter Cappelli, \textit{Rethinking the Nature of Work: A Look at the Research Evidence}, \textit{Compensation \\& Benefits Rev.}, July/Aug. 1997, at 50 (discussing changes in employer-employee relationships and situations that human resources personnel will confront).
\textsuperscript{126} See generally \textit{David Hackett Fischer, Historians' Fallacies: Toward a Logic of Historical Thought} (1970).
\textsuperscript{127} See \textit{Frederick G. Hilmer \\& Lex Donaldson, Management Redeemed: Debunking the Fads That Undermine Corporation Performance}, at xii-xiii (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."\(^{129}\) The Times's 1996 multi-part series and subsequent book, *The Downsizing of America*, took two dozen people more than seven months to produce.\(^{130}\) It was the longest piece of journalism published by the Times since the Pentagon Papers in 1971.\(^{131}\) 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 layoffs.

Then there is the Challenger, Gray & Christmas 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 reports. 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 by showing them that the companies are getting lean and mean. But then the companies 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 layoffs never actually occurs.\(^{132}\)

**IV. 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. And employers have in other respects been shifting more of the risk burden onto employees. That is the logic of managed-care plans and larger deductibles for health insurance, both of which have grown steadily since 1991.\(^{133}\) It is also the rationale

\(^{129}\) N.Y. TIMES, *supra* note 111, at 37.


\(^{131}\) See *id*.

\(^{132}\) See Patterson, *supra* note 19, at 13; Silverstein & Maharaj, *supra* note 55.

\(^{133}\) See Employee Benefits, *supra* note 95, at 10 tbl.7.
behind the change from defined-benefit pension plans to defined-contribution pension plans. Furthermore, employers are incorporating more variability into pay packages via discretionary bonuses, group incentives, profit-sharing, and stock options. In economists’ parlance, pay is “at risk.”

The reallocation of risk—not the decline of career-type jobs—is, I would argue, the central dynamic driving today’s internal labor markets. Employers are still protecting employees from the hazards of unemployment, sickness, and old age. But 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.

Some employees are adapting to this risk—especially younger, more educated workers with “hot” skills—while others are having a tough time with 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% 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 those immediately affected.

134. In mid- to large-sized establishments, the proportion of employees with defined-benefit plans fell from 59% to 50% between 1991 and 1997, and the proportion with defined-contribution plans rose from 48% to 57%. See id. at 13 tbl.11. Note, however, some employees are covered by both types of plans and some of the shifting occurred across, rather than within, firms due to rapid job growth in smaller, nonunion companies that historically have been unlikely to offer defined-benefit plans. See generally Ellen Benoit, Penny Wise, Pound Foolish, 6 TREASURY & RISK MGMT. 1, 18-27 (1996); Richard A. Ippolito, Toward Explaining the Growth of Defined Contribution Plans, 34 INDUS. REL. 1 (1995).

135. The head of human resources at IBM, Gerald Czarnecki, characterized his company’s new approach as a “readjustment which needs a new balancing act.” SAMPSON, supra note 109, at 229. “I never thought it was good for a corporation to take over the role of the family unit, which is more dependable for society,” stated Czarnecki. “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 . . . .” Id. (quoting Czarnecki).

136. See generally BOND ET AL., supra note 46, at 76-79.


138. Efficiency wage models relate the probability of job loss to employee effort levels. These models are a microeconomic version of the Kalecki effect. See VALLETTA, supra note 42, at 1-3; see also Daniel Aaronson & Daniel G. Sullivan, The Decline of Job Security in the 1990s: Displacement, Anxiety, and Their Effect on Wage Growth, ECON. PERSP., First Quarter 1998, at 17, 18-19.
Survey data show that workers today feel that their jobs offer more autonomy but are substantially more demanding—in terms of effort and workload—than twenty years ago. Such insecurity can also breed sabotage and workplace violence, so-called "work rage," which is increasingly of concern to employers. The only good news here is that insecurity is affected not only by local events but also by the aggregate unemployment rate, and, as compared to five years ago, fewer workers currently report feeling nervous or stressed.

Does this mean, then, that eventually we can expect to see the risk burden completely shift to employees, such that employers will no longer 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. New workers have to be trained, which makes employee turnover costly. And employee skills are, if anything, more important today than in the past, especially in service industries and 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 they 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.

139. See BOND ET AL., supra note 46, at 125.
141. See BOND ET AL., supra note 46, at 48.
143. See PAUL OSTERMAN, SECURING PROSPERITY 99 (1999).
144. "Finding and training a replacement typically costs about 55% of a departing
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.145 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.146 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.”147

Some argue that companies in dynamic sectors like Silicon Valley, Hollywood, and Wall Street operate according to a different, more market-oriented logic.148 Here, workers tend to be relatively young and educated, and 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.149 But these workers are an atypical elite, just as footloose craft workers were an atypical but essential elite in American industry seventy employee’s annual salary.” Can America’s Workforce Grow Old Gainfully?, ECONOMIST, July 25, 1998, at 59, 60. For establishments with over 50 employees, 30% use self-directed work teams, with a coverage rate (percent of employees affected) of around 12%. See Christopher Erickson & Sanford Jacoby, Training and Work Organization Practices of Private Employers in California, CAL. POL’Y SEMINAR REP. (1998); see also Maury Gittleman et al., “Flexible” Workplace Practices: Evidence from a Nationally Representative Survey, 52 INDUS. & LAB. REL. REV. 99, 99 (1998) (estimating the extent to which establishments have adopted six alternative work organization practices).


148. See, e.g., Candace Jones, Careers in Project Networks: The Case of the Film Industry, in THE BOUNDARYLESS CAREER, supra note 128, at 58.

149. See ANNALEE SAXENIAN, REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE 128, at 50 (1994).
years ago. Most workers do not have skills that are either as scarce or as critical to business performance as the technologists in Silicon Valley.\textsuperscript{150}

Also, the employers of this elite are dissimilar in important respects from the bulk of the companies that comprise 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 like 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.\textsuperscript{151}

And even high-technology companies are beginning to recognize that rapid turnover and short employment stints can be detrimental. Take, for example, SAS Institute, 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 workweek, on-site subsidized Montessori day care, a lavish exercise facility, and subsidized cafes with live piano music.\textsuperscript{152} 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.\textsuperscript{153} To retain potentially mobile knowledgeable workers, it tries to accommodate people's changing careers within the company, not by losing them to competitors.\textsuperscript{154}

\begin{itemize}
\item \textsuperscript{150} In fact, most of the employment growth in California is concentrated in jobs that do not require a college education. During the economic boom of 1991 to 1997, real incomes for the poorest 20\% of all households in the Silicon Valley region fell by 8\%. See David Friedman, \textit{The Dark Side of the High-Tech Religion}, L.A. TIMES, Jan. 31, 1999, at M-1; Jacoby & Goldschmidt, supra note 70, at 90.
\item \textsuperscript{151} For a similar argument by the head of Bain & Company, see generally FREDERICK F. REICHHELD, THE LOYALTY EFFECT: THE HIDDEN FORCE BEHIND GROWTH, PROFITS, AND LASTING VALUE 114 (1996). Although he does not comment on it, Reichheld's case studies come from service industries that are the sectors of the U.S. economy experiencing the highest levels of employment growth: financial services, retail sales, insurance, and eating establishments. See generally FRANCES FREI ET AL., PERFORMANCE IN CONSUMER FINANCIAL SERVICES ORGANIZATIONS (Wharton Fin. Inst. Ctr. Working Paper No. 95-03, 1995) (on file with author).
\item \textsuperscript{152} See Martha Groves, \textit{In Tight Job Market, Software Firm Develops Programs to Keep Employees}, L.A. TIMES, June 14, 1998, at D-5.
\item \textsuperscript{153} See id.
\item \textsuperscript{154} See id.
\end{itemize}
(Turnover at SAS is less than 4% annually, contrasted with the 17% or more that is common among companies in the software industry.)\textsuperscript{155} The company's vice-president of human resources said, "At 6 P.M., 95% 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."\textsuperscript{156} Past history suggests that as some companies accelerate the internalization process, others will follow suit as a defensive necessity.\textsuperscript{157}

A second limit to the risk reallocation process is demographic. 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 machineguns started firing on day one [after a recent merger], with anyone over 50 in the front rank.\textsuperscript{158} 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.\textsuperscript{159} 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.\textsuperscript{160}

It was feasible to conduct layoffs in the late 1980s and early 1990s because replacement workers from the baby boom generation were plentiful. But 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% between 2000 and 2015.\textsuperscript{161} 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 flat.\textsuperscript{162} In short, employer concerns

\textsuperscript{155}. See id.
\textsuperscript{156}. Id.
\textsuperscript{157}. See id.; Overworked and Overpaid: The American Manager, ECONOMIST, Jan. 30, 1999, at 55, 56.
\textsuperscript{158}. America's Workforce, supra note 91, at 59.
\textsuperscript{159}. See Bureau of Labor Statistics, supra note 82, at tbl.2.
\textsuperscript{160}. A study of managerial downsizing in British companies reaches similar conclusions. It found "no evidence of the kind of the transformational change associated with the introduction of a new model. Instead, [the study found] that the traditional model of managerial employment has been eroded rather than replaced." Patrick McGovern et al., The Managerial Career After Downsizing: Case Studies from the "Leading Edge," 12 WORK EMP. & SOC'Y 457, 457 (1998).
\textsuperscript{161}. See Elizabeth G. Chambers et al., The War for Talent, MCKINSEY Q., Spring 1998, at 44, 47 & exh.1.
\textsuperscript{162}. See id. at 47.
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 public pressure for government and perhaps even for unions to fill the gap.

The only aspect of risk shifting that knows no limits is a belief in its inevitability, a habit of mind that Albert O. Hirschman 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 these forces 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.

But as Hirschman points out, 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 arms-length relationships, the system idealized by nineteenth-century contract law. In fact, we still inhabit a society where markets—including labor markets—coexist and coevolve with organizations, regulations, 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. In fact, the volume of such regulation has steadily grown in the 1990s, in the labor market and elsewhere. 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 in the economic game.

For example, the SEC could require companies to include on their financial statements 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. Even employers admit that union-organizing laws have become heavily biased in their favor. 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 around with breathtaking rapidity. Pension funds should pay capital gains taxes on the stock they churn around, while mutual funds should do more to penalize short-term traders for the costs that they incur.

CONCLUSION

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." Those who ask that corporations be responsible are not asking for

166. See STEVEN K. VOGEL, FREER MARKETS, MORE RULES: REGULATORY REFORM IN ADVANCED INDUSTRIAL COUNTRIES 3 (1996).
168. WOLFE, supra note 112, at 237.
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.¹⁶⁹

The problem of inequality ought not to be confused with the rising risk of job loss. While it is true that less educated workers are more likely than educated workers to experience a permanent reduction in earnings when they lose their jobs, this has not been shown to be a major cause of overall earnings inequality.¹⁷⁰ It could be that incumbent workers are inhibited from making wage demands for fear of job loss. But, if this were the case, we should expect to see the slowest wage growth for educated, white-collar workers, who have experienced the sharpest increases in permanent job loss in the 1990s.¹⁷¹ In fact, the opposite has occurred: relative wages of educated workers have risen and inequality has widened.¹⁷²

¹⁷⁰. Comparing the cohort of young workers who entered the labor market in the late 1960s to those who entered in the early 1980s, one study found that the returns to tenure have fallen for those holding jobs less than eighteen months, but these returns have increased for those holding jobs for nineteen months or more (hardly a sign of collapsing internal labor markets). If the probability of holding a long-term job is related to education, then rising wage returns on those jobs could be a source of inequality. However, the data (see below) do not support the notion that less educated workers increasingly are being frozen out of long-term positions. See Annette Bernhardt et al., Inequality and Mobility: Trends in Wage Growth for Young Adults (1998) (unpublished paper) (on file with Pennsylvania State University); see generally DAVID R. HOWELL, INSTITUTIONAL FAILURE AND THE AMERICAN WORKER: THE COLLAPSE OF LOW-SKILL WAGES (Jerome Levy Econ. Inst. Pub. Pol’y Brief No. 29, 1997).
¹⁷¹. See Kletzer, supra note 17, at 119 tbl.1.
when one examines the stock of continuing jobs, long-term employment relationships (over twenty years) are as prevalent for those with twelve or fewer years of education as they are for those with baccalaureate and advanced degrees.\textsuperscript{173}

Thus, the primary cause of inequality is not downsizing or job-loss risk but rather rising returns to education accompanied by the collapse of wage-setting institutions in the low-wage labor market. Educated, 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. Moreover, it is an exaggeration to say that career jobs are melting into air. In fact, those jobs have proved remarkably resilient in the face of economic change, although career workers today are more exposed to risk than was true thirty years ago.

\textsuperscript{173} Cutting the tenure data at over ten years, rather than over twenty years, does give college graduates an edge over high school dropouts in the percentage holding long-term jobs. However, this advantage also existed twenty years ago, before wage inequality had grown wide. Similarly, four-year job retention rates fell in the 1980s for high school dropouts and high school graduates relative to college graduates, but ten-year retention rates for college graduates showed a slight decrease relative to the less educated. See Farber, \textit{supra} note 17, at 24; Diebold et al., \textit{supra} note 31, at 223.