Working Paper

Reducing Inequality and Insecurity:

Rethinking Labor and Employment Policy for the 21st Century

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Abstract

In *Good Jobs, Bad Jobs* Arne Kalleberg examines the institutional changes in the U.S. that led to a polarization of income and job quality, a rising share of poor quality jobs, and the increasing precariousness of work across the educational spectrum. He proposes reversing these developments through a new social contract that builds on the design principles that underlie flexicurity policies in the Netherlands and Denmark – flexicurity with an American face. This article discusses the roots and promise of flexicurity to address the problems Kalleberg has identified. It also examines the limits to flexicurity and proposes additional policies to fulfill this promise.

As Arne Kalleberg observes in the opening chapter of *Good Jobs, Bad Jobs*, precarious employment – insecure jobs, low and unstable wages, no access to pensions or health insurance, arbitrary treatment on the job – was a common experience in the nineteenth century and persisted up to the end of the Great Depression. Income inequality rose sharply in the decade preceding the Depression, with the top 1 percent laying claim to nearly a quarter of total household income. All this changed, however, as laws enacted in the 1930s, including protection for workers' rights to bargain collectively, "dramatically increased the number of workers whose jobs provided a living wage, employment security, and fringe benefits. …During the postwar boom period … economic compensation generally increased for most people, leading to a growth in equality …"[1] Indeed, the great accomplishments of the labor movement in the middle decades of the 20th Century were its successes in reducing the extent of precarious work and in establishing an employment relationship based on union representation in the workplace and a fair share of the increase in productivity for workers. Workers were protected against arbitrary treatment in the workplace and were able to share in the growing prosperity that characterized the post-War period, fueling the rapid growth of the broad middle class. In a radical break with the past, public policy following the Great Depression was characterized by a commitment to full employment. Collective struggles of workers in the 1930s and concerted efforts to enact laws and adopt policies in support of this goal reversed the sharp increases in economic and social inequality and in the precarious employment that previously characterized the conditions of life and work of most workers.

The rapid social and economic progress that characterized the post-War years came to an end in the 1970s. Kalleberg points to a set of economic and political forces – globalization, deregulations, and technological change – that led to changes in work and employment relations over the past 40 years, with important implications for the quality of jobs and the increasing precariousness of work. It's important to augment Kalleberg's globalization theme to encompass changes that greatly expanded the mobility of capital. Greater mobility of capital coincided with an increased focus on shareholder value and the diversion of corporate profits from investments in productive capital, worker skills, work organization and stakeholder relationships to share buybacks, increased dividend payouts, and a view of the corporation as an asset like any other in an investment firm's portfolio. Corporate managers were under pressure to increase profit margins and were judged by their ability to produce financial returns for shareholders, not just on their firms' ability to compete in product markets. The combination of the increased global mobility of capital and the increased emphasis on financial returns in non-financial corporation – a phenomenon referred to as 'financialization' – has raised pressures on firms to move production to low-wage countries, to increase leverage (which magnifies both returns to shareholders' equity and the risk of financial distress), and to rely increasingly on precarious work. The latter comes about in many ways – replacing full-time, experienced workers with more vulnerable workers is one way; outsourcing work to contractors who typically pay lower wages and provide fewer benefits and less income and employment security is another. As a result, and as Kalleberg carefully documents in *Good Jobs, Bad Jobs*, on many – though perhaps not all – dimensions, job quality has deteriorated since the 1970s.

Two related phenomena, discussed only obliquely in the Kalleberg book, are the shift in public policy from an emphasis on achieving full employment – jobs being the overarching concern of workers – to an emphasis on maintaining price stability – inflation being the overriding concern of lenders and investors; and the replacement of wage-led economic growth by debt-fueled economic growth. Following the oil price shocks of the 1970s and the sharp spikes in inflation and interest

1 Kalleberg (2011), p. 3.

rates that followed, the commitment to full employment was abandoned as inflationary. Instead, the dominant concern of policy makers shifted to a focus on price stability. In place of policies to maintain full employment, neo-liberal policies were adopted that focused on the deregulation of industries, the outsourcing of production to low-wage countries, and the undermining of unions – all policies that weakened the bargaining power of workers and unions. Union membership eroded, leaving ever more workers subject to 'employment-at-will.' The increase in precarious work soon followed.

Power in setting wages shifted decisively to employers. Private sector wages were redefined as a cost to be controlled, private sector pensions were replaced by employee savings schemes, public sector workers were threatened with wage and pension cuts, and social security was repeatedly targeted for austerity measures. The link between the growth of productivity and the growth of wages was broken. For the large majority of men, real wages stagnated. Increases in paid employment of women supported the growth of household incomes for a while. This, too, soon ended as the decade from 1999 to 2009 was the first 10-year period in which median real household income was lower at the end of the period than at the beginning. Rising debt replaced rising wages for American households, and an expanding American middle class was no longer seen by business as the source of demand for products and the engine of economic growth.

The middle six chapters of *Good Jobs, Bad Jobs* describe in discouraging detail the deterioration in most aspects of job quality since the 1970s. Kalleberg identifies the main dimensions of job quality and examines what social science has found about changes in job quality over this period. These chapters are a tour de force demonstration of the power of empirical social science in explicating the personal and social implications of the economic developments that characterized this period. The picture is one of polarization not only in wages and incomes, but in the quality of jobs – and is largely an unhappy one for most employees. While income is unequally distributed, the rise in precariousness of employment cuts across occupation and education categories as the employment relationship becomes increasingly market mediated. Even skilled workers are discarded rather than offered opportunities to develop their skills in industries in which technology advances quickly. Jobs long thought to be protected from the vagaries of market forces are now subject to new forms of insecurity and downward pressure on compensation.

Yet strange to say, despite its careful documentation of the sorry state of affairs for most workers, reading the book turns out to reinforce an optimistic view of the future. The depressing news about job quality is book-ended by the analysis of old institutions that once supported improvements in job quality and a decline in inequality and precariousness and new institutions that could, once again, support economic and social progress. Thus, the book opens with a discussion of the institutional framework in which the labor market of the post-War period was embedded and the importance of worker representation – unions – in improving wages and employment security. It describes how these institutions shaped the fabric of working life and living standards for large segments – though not all – of the population. This progress came to an end with the decline of unions and the steady erosion over nearly 40 years of the laws and policies that had characterized the 'social contract' among labor, employers and government. In the push to make labor markets more flexible, employers adopted an agenda for transferring risks and insecurity onto workers and their families. Recent decades have seen an increasing polarization of incomes and precariousness of work. On the eve of the financial crisis, the top 1 percent of households again claimed nearly a quarter of household income, and job quality had declined across a wide swath of the occupation distribution. The book closes with proposals, informed by the analysis in the intervening chapters, for policies that might characterize a 21st century version of a social compact that can create the conditions for a sharp increase in the share of good jobs and an equally sharp decline in inequality. The message of the book is that unions and workers accomplished this once, and it can be done again. The industrial unionism of the post-War period may not match the requirements of today's labor market and of careers that span jobs in multiple organizations, but collective representation of employee interests in the workplace and in the broader society remains key to reversing four decades of rising inequality and declining job quality.

Flexicurity: Basis for a New Social Contract?

Flexicurity provides employers with the flexibility to adjust employment to meet the requirements of changing market conditions or technology and provides workers with the income security, training opportunities, and job search support to successfully weather the lack of job security without a deterioration in earnings. These policies had their origins in a broader European discussion of labor market transitions.[2] Emerging out of a recognition that stable employment via internal labor markets was becoming less important and that workers faced a wide range of transitions in labor market status – from school to work, from time out for child or family care to reentry, from work to training as technology changed and from training to work, from employment to unemployment and the reverse, from home country to host country, from part-time to full-time, from full-time to a bridge to retirement, transitional labor market policies were meant to be a broad-based reform. Transitional labor market reform proposals advocated for decentralized and local negotiations as a response to globalization and focused on guaranteed access to retraining and income support as an affirmation of collective flexicurity. The reform proposals were intended to support the changing life-cycle needs of workers. They were also intended to provide collective guarantees against the risks to workers from increasingly individualized and market-mediated employment relationship, in which risks previously borne by employers or shared by employers and employees have been shifted to workers.[3]

Transitional labor market reforms were also intended to combat unemployment, which has usually been concentrated among immigrants, young workers, older workers, and other vulnerable labor force groups. In this way, the reforms could also be expected to reduce the marginalization of these groups of workers. Labor markets are dynamic and most individuals will face transitions between education and work, between one job and another, between a job and unemployment or involuntary part-time employment, between a job and retirement. Transitional labor market policies were expected to greatly increase the share of successful labor market transitions, characterized by entry of the worker into a job the worker prefers and that pays a decent wage. For workers in stable full-time jobs, successful transition might mean an opportunity to reduce hours and the intensity of work.

Flexicurity in Denmark, the Netherlands and, to a lesser extent, in other European countries[4] is the practical manifestation of transitional labor market reforms. Flexicurity has been described as a set of policies that creates more and better jobs through new forms of flexibility and security that

2 Schmid (1995), and Schmid, Gazier and Fechtner (1999).
3 Hacker (2006).
4 See Mandl et al. (2010).

increases adaptability, employment, and social cohesion. It combines flexibility for employers in hiring and firing with lifelong learning, active labor market policies, and adequate levels of income security. So-called right-to-request laws in Germany, the Netherlands and other European countries are a further manifestation of transitional labor market policy. These laws permit workers to request a change in the number of hours of work – either an increase or decrease – and/or in their work schedules on their same job and at their same hourly pay and access to training and promotions. Employers are legally bound to honor the request unless there is a valid business reason to deny it. The onus is on the employer to demonstrate that the request cannot reasonably be accommodated. The very high proportion of men on part-time schedules in the Netherlands is usually attributed to this policy.

Flexicurity is most fully developed in Denmark. The Danish model combines high levels of flexibility for employers with high levels of security for employees. Danish workers have few legal employment protections and Danish unions have been willing to accept layoffs of their members. In exchange, employees have the security that comes with high wages, strong unions, and generous unemployment benefits. Active labor market policies that help unemployed workers regain a foothold in a job are notably highly developed and include education and training, job search assistance, and subsidized jobs that improve worker skills and provide temporary employment when necessary to avoid prolonged periods of unemployment.

Kalleberg notes that the forces that have led to the polarization of jobs and the increased precariousness of work are global and considers whether an American version of flexicurity might not help the US resolve "the problem of balancing flexibility for employers and security for workers"[5] as it has in Denmark. He distills a short list of five key design principles that underlie modern flexicurity programs in other countries and raises the question of whether 'flexicurity with an American face' is possible. Clearly, such an approach would go a long way toward improving job quality and raising the share of good jobs in the US. Kalleberg proposes that such a policy approach can form the basis of a new social contract that "will enhance both the competitiveness of the American economy and the quality of work experienced by individuals". Policies seeking to address issues of job quality and inequality should be guided by "considerations of efficiency as well as equity."[6] That includes the allocation of people to jobs and the organization of work in establishments to enhance firm performance. It also means raising the floor and reducing the gap between good and bad jobs. Guarding jobs in a dynamic economy is a futile exercise, Kalleberg argues, but enhancing economic security is consistent with market principles.

Kalleberg is clear on the importance of worker representation in securing a new social contract. He argues that "[t]he decline in unions contributed to the decoupling of wages and productivity and the growth of polarized and precarious employment systems."[7] And he notes the role of unions in passing the legislation that improved Depression era employment conditions for all workers, not just union members. He finds it unlikely that policies designed to create good jobs and high-road business strategies can be enacted unless workers have sufficient power to provide a countervailing force and are able to exercise collective agency. Traditional industrial unions are no longer appropriate given the changes in work, workers, and workplaces and the reduced attachment of workers to a single employer. But he argues that a revitalization of worker representation and

5 Kalleberg (2011), p. 183.
6 Ibid., p. 186.
7 Ibid., p. 189.

collective action is nevertheless essential to the achievement of a new social contract that takes into account the new realities in the world of work. The US is a dynamic economy in which global competition and technological innovation have increased the need for flexibility and restructuring and have increased the risks in the economic system. At present, the burden of these changes has been shifted to individual workers and has resulted in a rise of precarious employment. An American version of flexicurity that provides workers with increased opportunities for education and training and that enhances economic security appears to provide the best approach to reducing the share of bad jobs and the precariousness of work. Flexicurity provides a means to address the multiple insecurities in income, benefits and even access to jobs that confront not only immigrants, young workers, mothers, and other groups traditionally disadvantaged in the labor market but an increasingly wide range of people whose hold on a job at decent wages has become less tenable.

The recent experience of workers in the strong downturn associated with the Great Recession raises questions, however, about whether this approach alone is adequate or whether more is needed to reestablish a social contract that provides workers with employment – though not job – security.

Limits of Flexicurity: What Else Will It Take?

Flexicurity policies that combine numerical flexibility for employers (i.e., ease of firing and hiring workers) with job training and income security policies for employees perform well when the economy is at or near full employment. Education and training, job search assistance, subsidized employment, and other active labor market policies are effective in matching unemployed workers with jobs. However, the sharp economic downturn in the recent recession and financial crisis, in which the cause of unemployment is an overall lack of demand, demonstrates the limits of flexicurity policies in addressing joblessness. As a result of the recession, there was a substantial increase in the number of unemployed persons and a sharp decrease in the number of job openings. As a result, the kinds of transitions from job-to-training-to-job that flexicurity policies promote proved difficult – and, as is apparent in the rise of the number of long-term unemployed, often impossible – to accomplish. The low cost and ease of dismissing workers that is characteristic of flexicurity policies actually encourages employers to adjust to change by letting go of workers – an approach that is counterproductive in a severe downturn. Active labor market policies, meanwhile, are ineffective in moving the unemployed into new jobs. In these circumstances, labor market policies that promote employment security and encourage employers to adjust hours of work of their current workforce rather than reduce the number of workers may prove more effective in mitigating unemployment. The negative effects of recession will be shared more widely; workers will remain connected to their employers; and employers will hold onto workers whose skills remain current and will be prepared to take advantage of the next economic upturn.

The classic comparison is between the experiences of Denmark and Germany in the recent downturn.[8] In the decade prior to the recession, Denmark's economy performed quite well. The unemployment rate fell sharply and remained low as flexicurity policies promoted a dynamic labor market in which workers could be allocated from declining to expanding sectors of the economy. Workers and unions accepted the lack of job security because of the high levels of income and employment security as displaced workers were trained for and placed in new jobs. With the onset

8 Schmitt (2011).

of the Great Recession, however, flexicurity policies failed. The Danish unemployment rate doubled between 2007 and 2010.

Germany had a very different experience. Despite a 3.8 percent decline in GDP between 2007 and 2009, a steeper decrease than in the U.S., the German unemployment rate actually fell over this period. The performance of the German labor market was not especially robust in the period preceding the recession. But when the recession hit in 2008, total hours of work declined while employment remained constant. Reductions in hours worked absorbed the effects of the decrease in demand.[9]

These and similar experiences suggest the need to extend the concept of flexicurity to encompass what has been referred to as 'short-time working' or as 'work sharing.' Policies that support reduced working time mean that workers do not need to lose their jobs, can retain much of their take-home pay, and can use the time not at work to engage in training and upskilling for their employers. This improves the employability of workers and preserves a skilled workforce for the employer.[10] Short-time work or work sharing policies provide public funds to support employers' ability to maintain employment in difficult economic periods. Rather than laying off workers, these policies encourage employers to reduce the working hours of all or a group of workers, who then receive partial wage replacement from public unemployment insurance funds. In Germany the number of workers on this type of short-time work rose from an annual average of about 57,700 in 2008 to more than one million in 2009 and training costs for workers on short-time work were fully subsidized by the government.[11]

Short-time work policies can be seen as a complement to more traditional approaches to flexicurity. The reduction in hours of work preserves numerical flexibility for the employer and income security for the employee. Including job training with short-time work enhances functional flexibility for the employer as workers are able to take on new or additional function while improving employability and employment security for workers. The combination of active labor market policies that promote training for expanding sectors of the economy along with job search assistance and subsidized jobs along with policies that promote adjustment of hours rather than adjustment of employment in response to a negative demand shock hold the greatest promise for combating unemployment and improving the labor market chances of vulnerable population groups.

Conclusion

In *Good Jobs, Bad Jobs* Arne Kalleberg has marshaled the best social science research to illuminate the polarization of job quality and the increase in poor quality jobs and precarious employment. But he has done more than this: he has built on this research to point a way forward. The book concludes with a set of principles that can form the basis of a new social contract that will lead to a redistribution not only of income but of economic risks and employment security as well. The challenge for unions – and for organizations that seek to represent workers' interests – is to develop new strategies and new approaches for organizing and representing employees whose careers will

9 Ibid
10 Mandl et al. (2010).
11 Mandl et al. (2010).

span a range of organizations, and especially those whose jobs are precarious. For society, the challenge is to implement policies that support full employment and rising skill levels and that restore the link between wages and productivity growth. Kalleberg proposes a new social contract in which employers will retain the flexibility necessary to compete successfully. Nevertheless, as Kalleberg observes, it will take pressure from consumers and workers to reshape the norms that currently govern business behavior.

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