

Structural Change in North American Labour Markets

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The papers presented in this volume use all the current best practice techniques of economic theory, econometrics and micro data. These techniques have many quantitative virtues, but because they rely empirically on existing data surveys, inevitably done sometime in the past (on the basis of a questionnaire and sample design decided sometime earlier), they are inevitably somewhat backward looking. Furthermore, since most available micro data is drawn from cross-sectional samples of households, such studies tend to focus on the supply side of labour markets and the determination of the *relative* probability of labour market transitions at a point in time, thereby excluding consideration of cyclical influences or the impact of macro-economic policy.

In my comments, therefore, I would like to emphasize the qualitative dimensions of structural change and perhaps be a little bit prospective in looking forward to some extent. As well, it seems to me important to emphasize a bit more the role of aggregate demand in structural change and transition.

Sometimes in economics we tend to perceive the big trends only well after the rest of the world has done so. I think that one of the major trends that we observe in the 1990s is a pervasive sense of economic insecurity. Among well trained economists, there has been a certain sort of trained incapacity to perceive the prevalence of economic insecurity because we learn in graduate schools how to maximize lifetime utility subject to a lifetime budget constraint and the whole idea of 'insecurity' drops out of that sort of model. And if we entered the labour market in happier times and since then received tenure, economic insecurity may well be something that we have never personally experienced. But it is not just introspection that makes me think that insecurity is a key dimension of what people feel about modern labour markets. A relatively recent EKOS (1993) poll asked Canadians: Do you feel that you have lost all control over your economic future? Roughly 52% of

Canadians said that yes, they felt that they had lost *all control* over their economic future. So if I think that economic insecurity is a key dimension of modern labour markets in Canada and North America, then why would this be the case?

I think there are some qualitative changes going on in modern labour markets at a number of different levels.

First of all, there is qualitative change in the institutional structure of labour markets. By institutional structure I mean the collective bargaining legislation, role of unions, work standard legislation, health and safety legislation and, indeed, the whole package of legislation and structural institutions in labour markets which the Europeans call the 'means of social protection.'

Secondly, I think that the 1990s are seeing major changes in the internal organizational structure of firms. Distinctions between employment packages are increasingly occurring *within* firms, as firms alter their organizational structure and draw an increasingly sharp distinction between core and contingent workers.

Thirdly, there is substantial change in the nature of the employment relationship itself. What is a 'job' in modern labour markets? The standard idea of a 'job' as a employer/employee match with specific duties and compensation and the mutual expectation of a continuing relationship is still there, but it now has to be supplemented with a whole spectrum of contingent compensation, on-call, temporary help, sub-contract, self-employment and limited term arrangements.

Finally, I would argue that there is an important thread which ties together the social implications of all these structural or qualitative dimensions of labour market change—and that is demand-deficient unemployment. All these structural changes have very different social implications, depending on the aggregate state of the labour market.

If this were a European conference on structural change, a great deal would likely already have been heard about the mechanisms of 'social protection'. One would have heard a great deal about the ways in which the state can intervene in the labour market, to set labour standards and social welfare legislation, because in those countries there is a whole range of ways in which the state intervenes in order to increase the security of all citizens. The papers in this volume did not discuss to any great extent the institutional structure of the labour market—the ways in which it is changing and the structural changes and transitions that are occurring, except that there was a general presumption that social protections are eroding in both Canada and the United States. The trend in recent political developments, in both Canada and the United States, is to reduce the extent to which the state intervenes in labour markets to shield workers from the fluctuations and shocks of a capitalist market-

place. Although the union movement is far more embattled in the United States than in Canada, in both countries collective bargaining is under severe pressure. The lessened protections of collective bargaining and legislation are important for workers, because a great deal is going on at the level of the firm.

If we want to know where the labour market as a whole has been, there is no substitute for surveys based on representative, and hopefully recent, samples. But if we want to know where the labour market will be, quantitative survey data has to be supplemented with qualitative examination of the firms at the cutting edge of change. Most of the focus in what follows is on the transition and structural change that is occurring within firms. My working hypothesis is that there is a great deal happening on the demand side within firms.

The reason that I think this is partly because some colleagues and I have done a whole series of case studies of firms and their management practices (Osberg, Wien, and Grude 1995). Part of my belief in the importance of intra-firm change is also because one of my co-authors was hired by a management consulting firm and is now paid very large amounts of money to advise firms on how to do this sort of structural change. His transition has made me aware that management consultancy firms are actually major agents of technology transmission. The big international firms have very substantial computer data bases of best practice technology from around the world and can draw on world wide 'best practice' experience to advise their client firms.

Business schools and management consulting organizations are now talking about a new paradigm of management. A number of the buzz words within that paradigm of management include 'flat team management,' 'the empowered worker,' and 'total quality management.' The objective of these ideas is, essentially, to cut out a large number of layers of middle management, attain new levels of quality and devolve operational responsibility to teams of workers who are multi-skilled and multi-tasked. These workers report directly to upper management in a very flat hierarchy—but the key ingredient in making the whole thing work is making sure that these newly 'empowered' workers internalize the firm's goals to a much greater extent than was the case in the traditional sort of command-and-control type of organizational system.

How can firms devolve operational authority to shopfloor workers, operating with minimal supervision, and still retain the expectation that these workers will, independently, decide to do what the firm would have wanted them to do? The key to that is to get workers to internalize the firms' goals. If this is to happen, the firm's managerial problem has to be seen in terms of both the hard technology of capital equipment and the cognitive skills of workers, *and* the soft technology

of worker motivation and organization. Firms are using the best of modern behavioural science to help them to optimize the soft technology of worker motivation and organization. They are becoming much more conscious in their selection criteria and motivation strategies (or, one might say, manipulation strategies). And firms that want to make the new managerial paradigm work are also integrating the new system of social design within their systems of technical design. (For example, a firm that is trying to use teams of workers to operate very complex machinery systems in a decentralized way has to worry about how plant layout affects both the throughput of materials and the social interaction of workers.) Because firms are becoming more conscious of intrafirm social organization, the labour market is becoming much more demanding of both cognitive and social skills for a key group of core workers.

Thinking about the shift to this sort of delayed firm—to these multi tasked, multi skilled autonomous work teams, and their high level of internalization of the firm's goals—doesn't fit very well with the standard economist's notion that preferences are exogenous. But why would a firm take the worker's preferences as an exogenous constraint in their profit maximization problem when they can manipulate workers' attitudes using the best of modern behavioural science? Firms that select carefully from the queue of the unemployed can pick the workers who already have the preference structure they desire, or the malleability to be successfully manipulated. And although it may only be a minority of firms that are really adept at this currently, this minority is growing over time.

There undoubtedly are a large number of traditional firms remaining, but I would argue that many employers are switching over time to a very different way of organizing their workforce. One key dimension of this change is that in order to make this whole process work, team cohesion is very important. Team cohesion in turn requires employment stability for core workers and that implies a very different pattern of accommodating labour demand shocks than previously. For firms that want to maintain cohesion in teams of core workers, it becomes very important to keep that team together and to segregate them from the impact of surges in labour demand—i.e. to shift the costs of employment instability to a peripheral group of workers. To the extent that the firm cannot shift its adaptation to surges in demand onto a peripheral group of workers, team cohesion can be maintained if the firm can cope with changes in demand through changes in hours of work rather than layoffs for that core group of workers—but either way there is a major change from the traditional pattern in which layoffs were allocated by seniority among an otherwise undifferentiated workforce.

What happens to those people who are not selected to be members of these multi-skilled, multi-tasked teams with employment continuity and reasonably good packages of employment? That is where we return to the issue of what constitutes a job anymore, the 'just-in-time workforce', and the growth of employer strategies to casualize the workforce. And I want to emphasize that it is not mainly the increase in part-time employment that is at issue here. Structural change in the nature of the employment relationship can be seen everywhere—in business, government and academia—in the prevalence of short-term contracts rather than the open-ended, long-term contracts we were accustomed to; in the growth of temporary help agency employment; in the number of on-call arrangements; and in the growing number of people who are nominally self-employed sellers of labour services—but who are in fact doing the same job for the same employer in what used to be called an employment relationship—and who are really more accurately described as disentitled wage labourers rather than, in any real sense, self-employed.

The term 'non-standard workforce' does not really capture the issue all that well because the key dimension of all these jobs is their contingent and insecure status—the lack of any reasonable expectation of a *right* to continuing employment with the same employer. The end result is the creation of a segment of the workforce that is marginalized to accommodate short-term firm level instability and long-term aggregate demand shocks.

In my view, the increasing importance of this segment is central to understanding the pervasive sense of economic insecurity that is most dramatically felt by young workers but which is also felt throughout the labour market. One implication, of course, is that social legislation that is based on the continuing expectation of employment, such as the standard UI-type legislation or Workers' Compensation, becomes increasingly obsolete. It also implies that firms that depend on this sort of casualized labour strategy are increasingly dependent on the state to pick up the living costs of their workers, through transfer payments, when firms don't happen to actually need them. It also underlies a lot of the trends we observe within industries or within occupations towards increased inequality in earnings and in annual and weekly hours.

I believe that looking at both sides of the market is key because there is nothing new in the idea of structural change or transformation. Canada has been having structural change for just about forever. If you measure by such things as the year-to-year change in industry employment, you could argue that there was more structural change in the 1950s than there was in the 1980s. Then, Canada had a huge decline in

the agricultural sector, a very rapid period of urbanization, and substantial structural changes within industries—yet in the ahistorical 1990s we think, suddenly, that structural change is something new and different. What is different is that in the 1950s these major structural changes in the economy occurred in the context of a labour market with unemployment in the area of 4-5 percent, so that there was some sort of job for people to go to when they left declining sectors.

In discussions of macro-economic policy and unemployment just after the Second World War, the commentary of the time clearly reflected a recognition of the interplay between the cyclical and the structural. There was a recognition, not expressed mathematically but certainly phrased verbally, that the way in which the labour market evolves is conditioned by the cyclical phase of the economy. One cannot expect institutions to evolve in the same way in a high unemployment labour market compared to a low unemployment labour market.

As an example, consider the determinants of a casualized labour force strategy. Firms have to evaluate two main alternatives: first, pursuing a strategy of having a permanent workforce that they are going to keep in both slow and busy periods; or, second, switching to a strategy where there is a core group of workers that is kept on in both slow and busy states, but the firm contracts for just-in-time workers when there is a surge in sales. The incentive for a firm to switch from a permanent workforce strategy to a casualized workforce strategy depends heavily on the certainty with which they know that somebody is going to be waiting at the other end of the telephone needing a short term job when the firm calls them. So the higher is the aggregate unemployment rate, the more profitable it is for firms to switch to a casualized workforce strategy because they know that there exists a queue of workers whom they can hire at any point of time—so the firm that changes labour force strategy is not likely to lose sales in its busy periods because they can always get the labour they need for the brief period for which they need it.

In a low unemployment labour market, firms keep permanent employees on in part because they are paying an insurance premium in order to be sure that when the firm really needs workers, they are actually going to be there. But as more and more firms find it profitable to switch to a casualized workforce strategy, this swells the pool of the unemployed and increases the profitability of yet more firms switching to that sort of workforce strategy (for a fuller model of this process, see Osberg (1995)). So, in this sense, the actual evolution of labour market institutions is heavily conditioned on the aggregate state of labour markets.

In addition, there are social implications to this type of evolution, because it has always been the case that for casualized work strategies or contingent or part-time work, there is some part of the labour force for

whom this is a voluntary and preferable state, and there is some part for whom it is involuntary. Hence there is some socially optimal level of part-time or contingent work. But as we go through the 1990s with the Bank of Canada estimating an absurdly high NAIRU and then setting short term interest rates so as to restrain aggregate demand enough to ensure that unemployment is always kept higher than that absurdly high estimate—because we cannot possibly risk any twitch of inflation—then we are going to guarantee ourselves continued structural change in the economy that will maximize, in the labour market as a whole, a very polarized and rather exploitive set of institutions.

In my view, the social implications of structural change are fundamentally different in a high unemployment, deficient aggregate-demand type of labour market than in the sort of labour market that people complained about in the 1950s. If we only look at structural interpretations of labour market outcomes then we will only have part of the picture. If we only look at the impact of technological change over time, we will also only have part of the picture. In addition, there is a very important role to be played by macro-economic policy and the aggregate level of labour demand.

References

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