Moving Up in the New Economy

CAREER LADDERS FOR U.S. WORKERS

Joan Fitzgerald

A CENTURY FOUNDATION BOOK

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To the memory of Robert Mier and Bennett Harrison,
whose love, courage, and integrity will always guide me

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Foreword

By global standards, Americans of all classes are rich. At the same time, inequality in the United States is very high, as measured by either income or wealth. At the top of the income scale, the best off among us, of course, are fabulously rich, but most of us have lagged behind because of several decades of relatively slow growth in wages. In fact, since 1973, except for a relatively short period during the 1990s, inequality has increased steadily.

There have been many explanations for this pattern. Economists, statisticians, labor leaders, businessmen, politicians, and pundits argue continually about the relative importance of a variety of factors, including automation, the introduction of computers, changes in trade policy, changes in labor law, international competition, outsourcing, the new information economy, the decline of manufacturing relative to its share of overall employment, and lagging productivity. Indeed, the most thoughtful analysts have pieced together a likely tale involving a number of these factors. From the perspective of an individual worker, however, increased insecurity coupled with a lack of upward movement has meant several things at once: a growing amount of personal debt, a sense of increasing powerlessness, and confusion about how to choose a successful career path. These issues are especially acute for the majority of Americans who do not graduate from college.

For this large group of Americans, the most important pieces of their lives are family and work. Like many other features of American society—indeed world society—these central relationships have been changing rapidly. Not so long ago, most jobs involved heavy labor on the farm or in a factory. Women ran the household and, on farms, helped with the crops. Today, at least in modern nations such as the United States, that pattern amounts to ancient history. Few work on the farm at all, and women are a normal part of the workforce. Along with farmwork, manufacturing employs a sharply lower percentage of all workers. The service sector has come to dominate the economy. As it has done so, education has become more and more important for job seekers, and any differences between the physical capacities of men and women have become less and less relevant to the demands of the workplace. Increasingly, families rely on the wages and salaries of wives as well as husbands to make ends meet, and distinctions between the roles of women and men are diminishing. Now the norm is the two-earner family, with both earners working in white-collar jobs.

Business organizations have changed at least as much as the workforce. Big American employers of the past were relatively secure in their economic dominance, and their security translated into job security for their employees. In 1950, Bethlehem Steel, the Baltimore and Ohio Railroad, Pan American Airlines, and General Motors all enjoyed protected oligopoly status with big markets and secure sales. Since then, domestic and international competition have increased the economic pressure on almost all firms. As firms have lost market share and profits, their employees have lost job security, fringe benefits, and even basic wages.

These change have been particularly hard on the relatively poorly educated. As competition has carved leaner and meaner corporations, those without the skills to jump to alternative employment have often found themselves tossed onto the scrapheap of obsolete labor.

No longer can unskilled men follow in their father's footsteps and find good factory jobs. And on the other side, no longer do employers make the same effort to build a loyal workforce. Jobs and workers stay together only as long as both parties find the arrangement convenient, with a diminished sense of long-term responsibility.

In the context of these changes in work and the workplace, Joan Fitzgerald, associate professor and director of the Law, Policy, and Society Program at Northeastern University, explores the possibility of encouraging employers to play a larger role in the process of improving the skills and the job prospects of their employees. Potentially, both sides could benefit, with employees looking forward to upward mobility within the same organization, and employers looking forward to increased loyalty and effort among their workers. Fitzgerald refers to such opportunities for mobility and training within the firm as "job ladders."

At a practical level, programs designed to move workers along in their careers, raising them to higher pay levels and greater responsibility, if successful, obviously are good for everybody. They provide more productive workers for industry, they provide higher incomes for workers and their families, and, inevitably, they provide more tax revenues and fewer public burdens in the government sector. Thus, at a time when wage stagnation and economic insecurity have become persistent problems for Americans, the work of Joan Fitzgerald and others who examine such programs is particularly welcome.

Given the importance of this subject, The Century Foundation has been supporting major examinations of this problem for more than a decade, resulting in books such as *Created Unequal* by James Galbraith; *Top Heavy* by Edward Wolff; *Securing Prosperity* by Paul Osterman; *Growing Prosperity* by Barry Bluestone and Bennett Harrison; *The New Ruthless Economy* by Simon Head; *No One Left Behind*, a report of our task force on retraining America's workforce; Joan Lombardi's *Time to Care*, as well as ongoing work, such as Edward Wolff's forthcoming book on skill, work, and inequality, Amy Dean's new look at unions, and Timothy Smeeding's examination of the costs and consequences of economic inequality in America.

By exploring career ladders in a number of important industries—health care, child care, education, manufacturing, and biotechnology—Fitzgerald spans the U.S. labor market, from traditional manufacturing, through the rapidly growing human services sectors, into the rarified realm of high technology. In each case, she is intent on finding how workers without college education can be given more opportunity to learn and advance within the sectors in which they are employed.

Fitzgerald also enhances our understanding by making more concrete the dilemma that faces the unskilled or semiskilled worker in today's demanding and unforgiving labor market. It is not clear how much of this challenge can be met through improving career ladders. A cold reality of our new global economy is that there is little room for sentiment and charity. If it is profitable to train and promote workers from within, job ladders have a better chance to succeed than if it is not. The market will certainly let us know the answer. Even in the public sector, voter pressure for lower taxes makes it difficult to both deliver services and deliver job skills training in the same organization unless it is an efficient combination.

For those of us who believe in the power and the responsibility of the public sector to promote opportunity and mobility, Joan Fitzgerald has produced a stimulating book that makes clear the challenges we face in the evolving labor markets of the twenty-first century. She points out that investment in worker-advancement systems is much more effective if it is part of a larger strategy to provide reasonable compensation and advancement opportunities for workers. Surely these goals are among the middle-class values that all American politicians claim to embrace. But there has been little systematic effort to build on the best examples of such systems.

The need, as she points out, is not evidence that workers can be made more productive and achieve increased earning power. That much is clear. The need rather is to overcome the critical shortage of public and private policies intended to provide such opportunities for advancement. This shortfall is alarming, given not only the reality of millions of so-called working poor but also because the United States has always been thought of as the leader in upward mobility. Our experience over the past generation, however, has shaken our confidence in that vision of opportunity. Wages are not growing fast enough, except for the very well off, and even college is an increasingly difficult goal for the children of working-class families.

In other words, the topic of this book is important in ways that go well beyond the small world of experts on worker training. It touches on a central question facing us today: how can we restore the ideal of rising productivity and widespread upward mobility? For her contribution to answering this important question, I thank Joan Fitzgerald on behalf of the Trustees of The Century Foundation.

RICHARD C. LEONE, PRESIDENT
The Century Foundation
April 2005

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In the process of determining which sectors to include and understanding how career ladders work, I interviewed at least one hundred people, many who are named in the book. Several people spent a considerable amount of time explaining their work or leading me to key people for my research. They include John Burbank, Steve Dawson, Cheryl Feldman, Barbara Frank, Bob Ginsburg, Mishy Lesser, Lori Lindburg, Eric Parker, Jim Ryan, and Dan Swinney. I much appreciate their taking time out of their very busy schedules to provide the richness of detail needed to really understand how particular programs work.

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I have had the extraordinary good fortune to be blessed with an amazing extended family that makes it all worthwhile. Thanks especially to LaVerne Hufnagel, Shelly Fitzgerald, and Nell Newton for love, support, and advice. And above all, where would I be without my husband, Bob Kuttner, my biggest champion and soul mate in this cruel, crazy, beautiful world.

Abbreviations

AAS	Associate in Applied Science
ACDS	Apprenticeship for Child Development Specialists
AFSCME	American Federation of State, County, and Municipal Employees
AFT	American Federation of Teachers
ATE Center	Advanced Technological Education Center
BBRI	Biomedical/Biotechnology Research Institute
BEST	Building Essential Skills Training
BLS	Bureau of Labor Statistics
BRITE	Biomanufacturing Research Institute and Training Enterprise
BWP	Biotechnology Workforce Project
CARES	Compensation and Retention Encourage Stability
CAEL	Center for Adult and Experiential Learning
CBEST	California Basic Educational Skills Test
CCSF	City College of San Francisco
CDA	Child Development Associate
CEEC	Center for Education, Employment, and Community
CFL	Chicago Federation of Labor
CGMP	Current Good Manufacturing Practices
CHCA	Cooperative Home Care Associates
CLCR	Center for Labor and Community Research
CNA	certified nurse assistant
CORE	Coalition to Reform Elder Care
COWS	Center on Wisconsin Strategy
CUNY	City University of New York
DACUM	Developing a Curriculum

DHS	Department of Human Services
DOE	Department of Education
ECCLI	Extended Care Career Ladder Initiative
EDC	Education Development Center, Inc.
ELMS	entry-level manufacturing skills
EOI	Economic Opportunity Institute
ESEA	Elementary and Secondary Education Act
ESL	English as a Second Language
FDA	Food and Drug Administration
FY	fiscal year
GED	Graduation Equivalency Diplomas
GDP	Gross Domestic Product
GPA	grade point average
HR	Human Resources
ICIC	Initiative for a Competitive Inner City
IWPR	Institute for Women's Policy Research
JARC	Jane Addams Resource Corporation
JPNDC	Jamaica Plain Neighborhood Development Corporation
LAUSD	Los Angeles Unified School District
L.I.N.C.	Ladders in Nursing Careers
LPN	licensed practical nurse
MATC	Milwaukee Area Technical College
MCDP	Military Child Development Program
MTEL	Massachusetts Test for Educational Licensure
MSSC	Manufacturing Skill Standards Council
NACFAM	National Council for Advanced Manufacturing
NAEYC	National Association for the Education of Young Children
NAICS	North American Industry Classification System
NCBC	North Carolina Biotechnology Center
NCCU	North Carolina Central University
NCSU	North Carolina State University
NEA	National Education Association
NICHD	National Institute of Child Health and Human Development
NIMS	National Institute for Metalworking Skills
NSF	National Science Foundation
ORCE	Observational Record of the Caregiving Environment
PHI	Paraprofessional Healthcare Institute
PET	ParaEducator to Teacher

Project CARRE	Creating Access, Readiness, and Retention for Employment
PTTP	Paraprofessional Teacher Training Program
QCCI	Quality Child Care Initiative
RN	registered nurse
SANDAG	San Diego Association of Governments
SEIU	Service Employees International Union
SIC	Standard Industrial Classification
SVP	Social Venture Partners
TANF	Temporary Assistance to Needy Families
TIF	tax increment financing
WAGES Plus	Wage Augmentation Funding for Entry-level Staff Plus
UC	University of California
UFT	United Federation of Teachers
UI	unemployment insurance
VESL	vocational ESL
WIA	Workforce Investment Act
WMEP	Wisconsin Manufacturing Extension Partnership
WRTP	Wisconsin Regional Training Partnership

Chapter 1

The Potential and Limitations of Career Ladders

The United States used to be a country where ordinary people could expect to improve their economic condition as they moved through life. For millions of us, this is no longer the case. Many American adults have a lower standard of living than they had as children in their parents' homes. As they move into midlife, fewer now see the dramatic income gains that characterized the World War II generation. On the contrary, job insecurity has become common across the economic spectrum. Layoffs, once thought to be a risk only for blue-collar workers, now frequently hit managers and technical workers (such as engineers). In the service sector, precarious employment is endemic. We have come to accept as the norm that people will change jobs and even careers several times in a lifetime—and not necessarily for the better. For the most educated and well connected, these transitions may offer opportunities, though even for the elite they sometimes result in downward mobility. For those in low-skill jobs, opportunities for advancement at one's place of employment—or in the move from one employer to the next—are increasingly rare. In the context of welfare reform, this means that few of the millions of people who have moved from welfare to work have moved out of poverty.

This book is about restoring the upward mobility of U.S. workers. Specifically it is about the one workforce-development strategy that is currently aimed at exactly that goal—the strategy of creating (or re-creating) not just jobs but also career ladders. Career-ladder strategies aim to devise explicit pathways of occupational advancement.

The challenge is more complex than it may seem. Although job responsibility and earning levels tend to correlate roughly with skills, enabling people to move up from entry-level jobs is not just a matter of educating and training them. Often there is no pathway for low-wage workers to advance through a progression of more responsible and better-paid jobs as they gain skills and experience, for the simple reason that there are no more intermediary jobs for them to advance into. In many industries the middle rungs of what ought to be or used to be a career ladder are simply missing; there are well-paid professional or managerial jobs at the top and dead-end jobs at the bottom—and few if any positions in between. Elsewhere, work that could be defined as professional or paraprofessional, with skills, salaries, and career trajectories to match, has been broken down to be performed instead by low-wage, high-turnover employees. As a result, career-ladder programs usually must be directed as much toward encouraging employers to restructure the workplace as toward helping workers obtain needed training.

Moreover, since employers organize the workplace the way they do in response to a variety of factors, any attempt to create career ladders must take account of those factors—from the competitive environment in which an organization does business to the labor shortages, skills mismatches, and geographic limitations that constrain it.

Thus the success of career-ladder strategies is far from a sure thing. Whether a career-ladder strategy will have the impact its advocates hope for on the national economy as a whole, and on the earnings of American workers overall, is even less certain. This book explores the promise and limitations of current career-ladder programs in the hope that a greater understanding of both will bring us closer to solving the problems these programs mean to address.

Career-ladder programs can increase wages and create more satisfying jobs for low-wage workers. But to succeed, they need to be supported by complementary regulatory and workforce development policies and income subsidies. Further, significantly more employers need to be convinced that this approach is in their self-interest. So far, the nation's job-training and worker-education programs only minimally support career advancement as a goal. From employers to local, state, and national economic development policy, we have a long way to go in creating opportunities for all workers to move up in the new economy.

Dozens of career-ladder programs have started up around the country over the last ten years or so. All attempt to counteract the national trend toward low-skill, low-wage jobs by identifying pathways people might follow to gradually advance into better jobs. The programs clarify what training or education is required to move to the next step on the ladder, and they provide workers with the support services and financial aid they need to complete the training. For example, career-ladder programs are helping nurse aides to become licensed practical nurses, clerical workers to become information technology workers, and bank tellers to become loan officers. In some cases the ladders existed already, but employees and potential employees needed assistance in using them. In other cases new positions had to be created to fill in gaps between rungs, and employers had to be educated about the advantages of doing so. In all cases the programs are providing crucial links between employers and workers—and usually links to the community beyond. Most career-ladder programs are partnerships involving some combination of community colleges, unions, community organizations, and employers. Some also receive a great amount of support from government workforce-development agencies, while others operate independently.

The programs, indeed, are often monuments to cooperation. Nonetheless their task can fairly be described as overcoming the resistance of employers, the barriers in the way of employees, and the inadequacies of existing workforce-training institutions. A few words about each of those challenges follow:

If career ladders are to be established, employers must be willing to create jobs with advancement potential and to think explicitly about their company's internal labor market. But many are not. Many put cost-cutting ahead of investment in their workers and accordingly have downsized their labor forces and outsourced their work. Some employers simply find it more cost-effective to rely on a casual, high-turnover, low-wage workforce. In addition, employment practices in some industries exhibit distinct biases against advancing women or African Americans, Latinos, or other minority group members. Such companies rarely want to look too hard at their own personnel practices. Other companies, with even the best of wills, are too small to have real career ladders; and in industries dominated by small firms, deliberate multi-firm efforts are required to create pathways for advancement among firms. These are no small feat to sustain. In summary, both entrenched hiring practices and industry structure may make it difficult to establish career ladders.

Professional and individual barriers also come into play. In the nursing field, for example, registered nurses (RNs) with four-year college degrees often resist efforts to make the RN credential more accessible to experienced health workers via on-the-job training. At the same time many would-be ladder climbers face serious obstacles to advancing. Progress often requires workers to hold jobs, manage home and family responsibilities, and go to school simultaneously. Holding one's own on all three fronts is not easy for the most advantaged workers and is even more problematic for poor people. Unless time off, financial subsidies, and social and emotional support are available, many workers will be unwilling to start or unable to complete the training programs that can get them to the next rung of the career ladder. (The same cluster of family demands and transportation problems that make continuing education difficult may produce a spotty work history as well, which also militates against advancement.)

The number of American workers in this predicament is large. Today's economy is often characterized as one that demands and rewards high-tech, high-skilled workers. And so it does. But at the same time slightly more than two-thirds of the American labor force does not have a college degree.[1] During the nation's longest period of economic growth in the late 1990s, over one-fifth of male and almost one-third of female full-time workers earned wages that economists consider poverty-level.[2] These are circumstances that cry out for a strong federal job-training system, but instead, the one we have, despite every congressional attempt to improve it, remains inadequate to the task.

Since the 1960s the federal government has provided job training for the poor and for displaced workers, but most of these programs—including Manpower Development Training Assistance, Comprehensive Employment Training Assistance, and the Job Training Partnership Act—have failed to do much more than subsidize low-wage jobs. Experts in the field have offered several explanations: the failure to coordinate job training and other adult education programs; the overwhelming focus on the poor, which stigmatizes clients in the eyes of employers; the penchant for training people in skills for which there is little demand; and the frequent failure to deliver the skills that are promised.[3]

Congress enacted the Workforce Investment Act in 1998 to improve this situation by consolidating programs in federal job training, adult education, literacy, and vocational rehabilitation into a more streamlined and flexible workforce development system.[4] The core of this legislation was the creation of One-Stop Employment Centers, a centralized point of access for all federally funded employment programs. But the primary goal of the One-Stops is to place people in jobs first and to provide limited training only after placement efforts have failed. Thus, while the new legislation attempts to fix the the fragmentation of the previous system, it has not changed the orientation of workforce development from placement with as little training as possible to providing enough training so that people can enter occupations with advancement potential. In fact, it provides less funding for actual skills training than did its predecessor program, the Job Training Partnership Act.[5] But even if it were funded at higher levels, the present system still would not be set up to provide or support the ongoing training—the lifelong learning—that workers need to advance beyond an initial job placement.

The resistance of employers, the barriers faced by workers, and the inadequacies of existing training programs are a lot to overcome, and the ability of career-ladder programs to do so is the key issue this book explores. That exploration ultimately takes the book in two directions. The chances of success of the career-ladder strategy depend in part on the quality of the programs themselves and, perhaps to an even greater degree, on the larger economic forces they are up against.

In the field of workforce development, there is considerable excitement about workforce intermediaries—independent organizations that take on the task of establishing connections between employers, job seekers, educators, and other service providers. Intermediaries are expected to have far more success in obtaining good jobs for low-skilled workers than traditional job-training providers have had. This is largely because intermediaries attend to the needs of employers as well as to the requirements of job seekers. Most researchers and advocates in the field hold that a union, a community college, a community-based organization, or a government-sponsored entity can be an effective intermediary, and a growing literature addresses the question of how such organizations can best create and maintain the necessary links among the key workforce-development parties.

Career-ladder programs, which are also designed to make connections among these parties and are run by the same cast of workforce intermediaries, can certainly benefit from the lessons of that literature. But if career-ladder programs are to be more than just job-training and placement facilitators, if they are to succeed as well at influencing how employers structure work and how government workforce policies support lifelong learning and advancement opportunities, then there's more about the practices of existing programs and the possibilities of future programs that needs to be unraveled and reported. That is the task of this book, and I will come back to it—and to the whole notion of intermediaries—shortly.

However, probably more important than the quality of certain programs and the capacities of particular intermediaries, the potential of career ladders depends on economic forces that are beyond any program's control. A study of the career-ladder strategy must examine what latitude employers actually have to create or re-create paths of advancement. Indeed, given an economy of 142 million workers, driven mostly by market forces, it is important to ask whether the potential impact of career-ladder programs can, under any circumstances, add up to more than a drop in the bucket.

In the remainder of this chapter, I turn to a more detailed discussion of these issues and present the plan of the book.

The Economic Trends of the New Economy: Making Career Advancement Harder

Several trends in the new economy are making good jobs scarcer. First, the decline of unionization has dismantled old-style job security and advancement systems.[6] Second, increased competition in product markets has put pressure on companies to cut costs, especially labor costs. Third, employment has shifted from manufacturing to service industries, which tend to have more earnings disparity and fewer prospects for advancement. The consequences of these trends have been wage polarization (the increasing gap between the incomes of America's richest and poorest people) and a loss of upward mobility. Although they are interconnected, I discuss each separately below.

Wage Polarization and the Persistence of Low-Wage Work

The United States has the highest level of earnings inequality of all industrialized nations.[7] In the mid-1980s the economists Bennett Harrison and Barry Bluestone characterized the distribution of wages as an hourglass, with fewer and fewer families earning "middle-class" wages.[8] Since then, wage polarization has only increased.[9] Between them, top- and bottom-income jobs account for nearly 60 percent of recent job growth.[10] In the 1990s only about 6 percent of job growth was among jobs in the middle quintiles of the income distribution.[11] At the same time the pay of top and bottom jobs was growing further apart. From 1970 to 2000 the top 10 percent of earners realized a 30 percent increase in earnings, while the bottom 10 percent experienced a 20 percent loss. (Real wages for workers at the bottom began to rise in the late 1990s, but by 2000 were falling off again.) These findings, cited in a study completed by the Aspen Institute's Domestic Strategy Group, led the authors to conclude that the trend, if it continues, will slow economic growth and potentially increase current tension around immigration, ethnicity, and race.[12]

As mentioned earlier, one-fifth of male and almost one-third of female workers earn not just low but poverty-level wages, and this is not merely a reflection of more people working part-time.[13] Forty-four and a half percent of poor people have at least one member of their family working full-time.[14] The official government poverty level is set so low that the government itself now typically uses 200 percent of the poverty level as the cutoff for its aid programs; and using that threshold, 16.7 percent of non-elderly Americans live in working poor families.[15]

Several trends are behind the persistence of low-wage jobs in a full-employment economy. Trade patterns, immigration, the weakening of wage regulations, and declining unionization all have made a difference. The shift from manufacturing to services, however, is probably the most important factor.[16] It is worth recalling that the manufacturing sector used to have a highly unionized labor force with predictable terms of employment regularized in negotiated contracts. Public policies also sheltered this sector from low-wage foreign or out-sourced competition. These factors kept wages relatively high and the earnings distribution within industries relatively equal. Career ladders were not a big part of this reality. In semiskilled work, such as auto assembly, some career ladders existed (from assembly line to skilled trades), but they did not affect most workers. Nonetheless basic wages were sufficient to support a middle-class living standard. From the postwar period through the late 1970s manufacturing provided middle-class pay for people with relatively low educational levels. As these jobs declined, they were replaced by lower-paying service-sector jobs, which were the largest contributors to employment growth between 1984 and 2000.[17]

From a human capital perspective, there is nothing inherent in service jobs to suggest that they should pay wages significantly lower than manufacturing paid in its heyday. According to the U.S. Bureau of Labor Statistics, there is little difference in the overall skill requirements of the manufacturing and the service sector.[18] It is higher levels of unionization in the manufacturing sector that have been chiefly responsible for its relatively high wages compared to other sectors. (When manufacturing unions were at their peak, even non-union shops, if only to deter unionization, paid close to union wages.)[19] Conversely, lower rates of unionization in the service sector partially explain its lower wages and higher levels of wage variation.[20] The economist Richard Freeman has calculated that declining rates of unionization account for about 20 percent of the rise in low-wage work in the 1980s and 1990s.[21]

In other words, more and more Americans are stuck in low-wage jobs not just because we are not providing enough education and training to move people into well-paying jobs but also because we are not producing enough well-paying jobs. Studies from 1984 to 1996 show that the U.S. economy paid a living wage for only about a quarter of workers.[22] Wage growth for workers in the 90th and 95th percentile of wages grew considerably faster, at 27.2 and 31.1 percent, respectively, than for those in the bottom 10 and 20 percent (.9 and 7 percent, respectively).[23]

The Decline in Upward Mobility

The disappearance of middle-class jobs also means that there are fewer opportunities for advancement for those in low-wage jobs.[24] In recent years the most extensive employment growth has occurred in occupations that pay below-average earnings. According to the Economic Policy Institute's review of Census and Bureau of Labor Statistics (BLS) data, between 2000 and 2003 the only private-sector industry with above-average compensation that expanded employment was Finance, Insurance, and Real Estate (and, of course, there are plenty of clerical jobs in that sector that pay below-average wages). But nearly all the well-paying sectors experienced a reduction in employment share, most notably manufacturing, information, utilities, wholesale trade, and professional business services.[25] The structure of employment has racial dimensions, since the bottom quintile of the labor market is disproportionately occupied by blacks, Hispanics, and immigrants.[26]

An individual's opportunities for wage gains over time are diminishing. In one study Annette Bernhardt and her colleagues compared the growth of wages over a fifteen-year period in two sample groups of men, one starting in 1966 and the other starting in 1979. The study found 21 percent less wage growth in the later group, meaning that about 40 percent fewer workers were moving into the central part of the wage distribution.[27] Comparisons of baby boomers (those born between 1946 and 1964) and the "baby bust" generation (born between 1965 and 1976) also reveal that earnings growth is lower in the younger group.[28]

The Panel Study of Income Dynamics (PSID) is a national sample of about five thousand families, with low-income families overrepresented. Greg Duncan of Northwestern University and his colleagues at the Center for Policy Research at Syracuse University have been using the PSID to follow upward-mobility patterns of men from the age of twenty-one, comparing those who entered the labor market in 1968 to those who entered after 1980. They analyzed how long it took for labor market entrants to earn an annual income sufficient to support a family of three at the official poverty line, and then how long to move into the ranks of the middle class.[29] They, too, found that people who entered the labor market in 1980 took longer to reach middle-class earnings levels—if they reached them at all. Only 55 percent of the later group reached the poverty level by age twenty-five compared to 70 percent for the earlier group. Only 17 percent of the later cohort reached middle-class status by age twenty-five compared to 34 percent of the earlier group. Education and race factor into these results but do not explain them. Duncan and his colleagues conclude, "The lower level and slower growth of earnings, even among the college educated, belies the American dream of income mobility and increasingly better standards of living for all."[30]

Employers and Precarious Employment

The decline of manufacturing and growth of service industries, like the increase in global competition and the resulting pressure on companies to cut labor costs, are economic forces to be reckoned with. But how industries respond to competition and how service-sector jobs are organized are the result of deliberate choices that employers make. Thus the effects of these economic forces on the labor force—the polarization of incomes and persistence of low-wage work over the last twenty-five years, as well as the decline in upward mobility—are consequences of the larger economic trends but are not the only possible consequences. They are the result of how employers structure work.

In the postwar period the employment relationship was typically organized around narrow job descriptions, lifelong employment, and seniority-based wage increases.[31] In the 1970s and 1980s firms in many industries moved to more flexible and "lean" production systems in response to increasing global competition, the need to be more responsive to markets, and the fact that deregulation allowed them to treat most of their employees as casual labor.[32]

As recently as the 1970s several major industries were regulated with respect to the prices a company could charge and the competition it faced. These included telephone companies, gas and electric companies, airlines, interstate trucking firms, and natural gas companies. Because firms in these industries were guaranteed a fixed rate of return, they did not attempt to compete based on labor costs. Not surprisingly these industries tended to be bastions of good, secure, blue-collar jobs, and strong unions. Every one of these industries was deregulated. A new world of price competition produced competition to lower labor costs. By the same token, hospitals formerly were regulated with regard to the prices they could charge and were assured a fair return. This also made hospitals a congenial venue for union organizations. And, like other industries, hospitals have been gradually deregulated since the 1970s, with consequences for casualization of all but the most highly skilled of medical occupations.

A related change was a flattening of organizational structures, which reduced opportunities for advancement within firms.[33] In *Lean and Mean* (1994), the late economist Bennett Harrison provided convincing evidence that much of the supposed prowess of small businesses as job generators in the 1980s and early 1990s was actually a function of vertical disintegration, as large businesses contracted out goods and services formerly produced in-house. The reality was less a burgeoning of jobs in new and dynamic small businesses than the fact that very large firms, once the heart of the high-wage and secure labor market, were now outsourcing more work. Many of the supposedly new ventures were satellites of large companies whose internal labor markets had been hollowed out as a cost-saving measure. In this kind of downsizing, firms rely on subcontractors and temporary workers to perform tasks that formerly were performed internally.[34] The motivation, of course, is to be "poised for contraction" rather than supporting a pipeline of workers advancing on a career ladder.[35] IBM, for example, was known for its no-layoff policy until the 1990s, when the company restructured employment by reducing its workforce, staffing less-skilled jobs (including clerical jobs) through employment agencies, and rehiring laid-off workers on a temporary basis as consultants.[36]

The new flexibility is often advertised as a benefit to workers, but in reality it is defined and contoured mainly for the convenience of management. UCLA law professor Katherine Stone argues that this brand of flexibility has created an economy of precarious employment, a category that extends beyond the contingent employment of temporary or subcontracted workers to include those with steady, full-time jobs but no promise of long-term job security.[37] In contrast, from the end of World War II through the early 1970s, far more people could assume that their jobs were long-term and, if they worked hard, they could advance in the same company. Many firms had established career ladders, often requiring only on-the-job training for advancement. Others had contractual seniority systems that increased pay with experience. The system kept employers and workers happy—turnover was low, and advancement and reimbursement systems seemed fair—at least in manufacturing and regulated industries in the utilities and transportation sectors.[38]

Today's system of precarious employment operates under what Stone calls a "new psychological contract," which differs markedly from the mindset that dominated in the postwar period (see table 1.1). One big difference is job security. Nowadays two-thirds of employers do not assure job security to their employees.[39] Jobs are defined more broadly in many industries, so workers must acquire more skills for any particular job. And rather than expecting to be promoted within one firm, most workers expect to have to change jobs, making networking more important. Because unionization has declined and workers change employers more frequently, wages are based

TABLE 1.1
Expectations about employment, then and now

Old Psychological Contract	New Psychological Contract
Job security	Employability security
Firm-specific training	General training
De-skilling	Up-skilling
Promotion opportunities	Networking opportunities
Command supervision	Microlevel job control
Longevity-linked pay and benefits	Market-based pay
Collective bargaining and grievance arbitration	Dispute resolution procedures for individual fairness claims

Source: Stone 2000, 572.

on what the competitive market will bear and dispute resolution replaces collective bargaining.[40]

Although many of those who were part of the labor force prior to 1980 see the new policy as a loss, younger workers do not remember things being any other way. When I was explaining the concept of precarious employment to two software executives in Seattle, one of them, a twenty-something woman, looked at me quizzically, and said, "Why would I want a job to last more than five years?" This woman sees herself as a free agent and values freedom more than stability and security.[41] But while this new freedom may benefit those nimble enough to take advantage of it, it leaves countless others vulnerable to business cycles and random shifts in the employment structure of the economy.

Nowadays, neither high levels of education nor employment in growth sectors insures against precarious employment. In the 1990s many large companies eliminated entire layers of management, laying off thousands of college-educated workers.[42] Almost 40 percent of Silicon Valley's labor force works under "flexible" (i.e., temporary) agreements related to specific projects, rather than in stable employment with one company over an extended period of time.[43] Even among those with "permanent" jobs, turnover is high.[44] Independent contractors in information technology have "boundaryless" careers, their advancement taking place in hops among organizations rather than within a single hierarchical organization.[45] In a system of such careers, people are not long-term employees; they are owners of human capital, which is used by employers over undefined time periods.[46] As the Hewlett-Packard cofounder William Hewlett used to advise people, "If you want to succeed here you need to be willing to do three things: change jobs often, talk to your competitors, and take risks—even if it means failing."[47]

Rosemary Batt and Jeffrey Keefe have documented the decline of upward job mobility in the telecommunications industry since the deregulation and breakup of the formerly integrated Bell Telephone system.[48] Under the old Bell system, employees were assured of continued employment and the company's ongoing investment in training them. It was understood that some women could advance from clerical to management positions, and even those who remained in the heavily female occupation of telephone operator had job security and decent wages and benefits. Accompanying deregulation of the Bell monopoly has come competition and declining profit margins, and telecom companies have organized themselves to minimize fixed costs and labor costs generally.

The Wharton School professor of management Peter Cappelli describes how the new labor relationship works at AT&T:

> AT&T has experienced one of the most dramatic changes in its employee relationships and has introduced a series of new policies to help define the new deal. AT&T executives described the old deal as one in which "the employee provided a fair day's work and a tremendous sense of loyalty, commitment, and dependability. For its part, AT&T rewarded most employees with a fair day's pay, a secure future, and an opportunity to rise through the ranks. Managers and professionals were virtually assured of lifetime employment." With the breakup of the Bell Systems and the competition of deregulation, an AT&T executive noted, "the company moved to encourage entrepreneurship, individual responsibility, and accountability. Rewards were more closely tied to performance, and most dramatically, surplus employees were let go. Thus, AT&T's psychological contract died in the 1980s." When security ended, loyalty and commitment became casualties as well.[49]

Batt and Keefe relate how women's upward mobility within telecommunication firms has eroded as the companies have segmented their customer markets to gain a competitive edge, separating high- and low-end residential customers, as well as those in small and large businesses, and often housing them in different cities or states. Nowadays telephone-operator jobs are often contracted out and pay just above minimum wage. Firms have also replaced company-provided training with tuition-reimbursement programs, which leave it to employees to arrange for their own acquisition of skills and to front the money for it. For low-income employees, the reimbursement programs are virtually useless.

Similar changes in the organization of work are being made throughout the service sector. Customer segmentation is becoming a norm in these industries. Services are tailored, for instance, for customers of small- and large-businesses, as well as for those living in high- and low-end residences. Better customers get better services. The strategy allows the companies to