

The Social Contract in an Era of Precarious

WORK

BY ARNE L. KALLEBERG

Employment relations have become more precarious—more uncertain, insecure, and risky—in all industrial societies over the past quarter century. In the United States, the anxiety and inequality accompanying the expansion of precarious employment has not only affected how work is experienced, but also how families and communities bear risks and how firms and society conduct business. Uncertainty, insecurity, and risk are pervasive throughout the labor market and have affected both younger and older workers alike.

Precarious work is not new; it has existed since the beginning of paid employment. But globalization, technological change, re-regulation of labor markets, and the removal of institutional protections have shifted the balance of power away from workers and toward employers and made precarious work increasingly common across the globe. These shifts in power relations are structural transformations in labor markets, not temporary fluctuations in supply and demand associated with the swings of business cycles.

The growth in precarious employment has occurred just as we've abandoned the implicit social contract that once bound together government, business, and labor in the United States

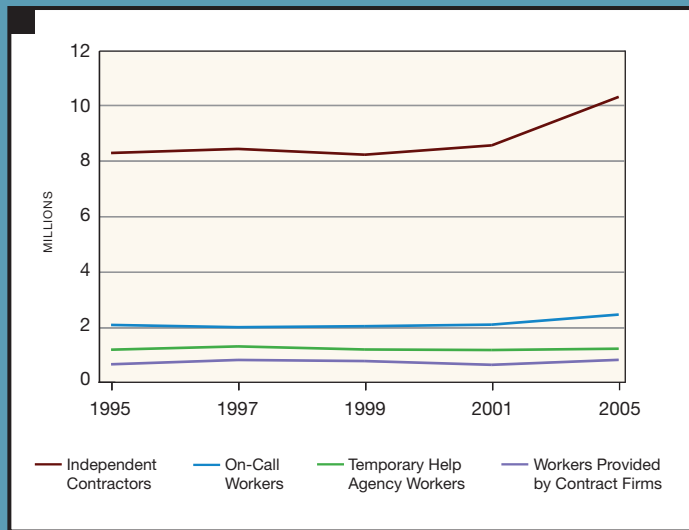
in the decades following World War II. The metaphor of a social contract has its roots in the philosophies of Hobbes, Locke, Rousseau, and Rawls. It refers to the mutual expectations and responsibilities that society and individuals have toward each other. Explicit and implicit social contracts in the post-WWII period emphasized collective solutions to solving social problems, as well as long-term and fairly stable relations between employers and their employees. Unfortunately, government and business have deserted their obligations to their workers and communities over the past several decades, and people are now told that they are “on their own” to address their concerns. We need a new social contract that will provide social insurance and security to individuals. What we need, in short, is to once again spread the risk around.

The Growth of Precarious Work

A variety of data can be marshaled to document the growth of precarious work. Taken as a whole, these data strongly support the conclusion that there has been a transformation of employment relations toward greater uncertainty and instability in the United States since the 1970s.

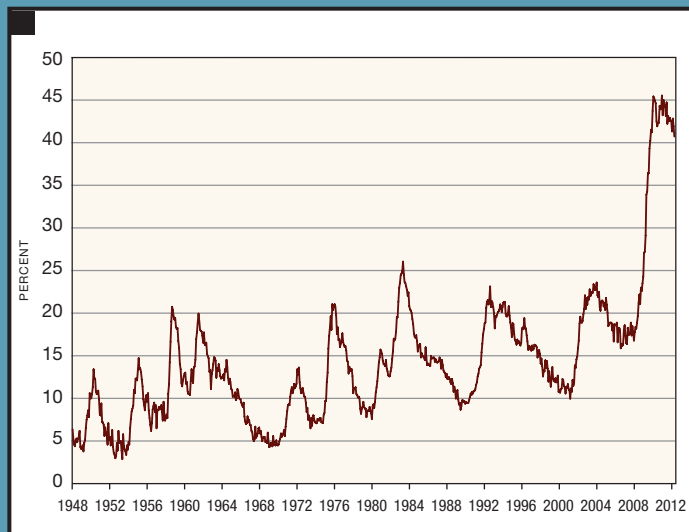
First, there has been an expansion and institutionalization

FIGURE 1. Workers with nonstandard employment relations, 1995–2005 (ages 16 and over, in millions)



Source: Bureau of Labor Statistics, "Contingent and Alternative Employment Arrangements" press releases, 1995–2005.

FIGURE 2. The share of the unemployed who have been jobless for six months or more, 1948–2012



Source: Economic Policy Institute.

of nonstandard employment relations, such as independent contracting and temporary work. These forms of nonstandard work have spread throughout the labor force in both high- and low-skill jobs. Figure 1 shows the trends in four types of nonstandard employment relations from 1995 to 2005. The rise was greatest for independent contractors; the main increases in the others occurred before 1995, when data on nonstandard employment relations began to be collected systematically.

Second, there has also been a general decline in job stability, with substantial reductions in the average length of time a person

spends with his or her employer. This trend has been experienced mainly by men; the percentage of women with ten or more years of employer tenure increased from about 25 percent in 1983 to about 29 percent in 2004, while the corresponding percentages for men decreased from about 38 percent to about 32 percent.

Third, the decline in employment tenure occurred just as internal labor markets weakened, as reflected in the increasing tendency for employers to hire workers from outside the organization rather than to develop the human capital of their employees internally. There has been a dramatic increase since the 1950s, for instance, in the proportion of managers hired from the external market rather than being promoted from within the organization. Because workers cannot as easily climb the ladder within their firms, they are likely to feel more precarious and insecure than in days past.

Fourth, trends in involuntary job loss suggest that job stability and security have declined since the 1970s, especially for prime-age males and those in white-collar occupations. The proportion of males aged 35 to 54 who were permanently displaced from their jobs almost doubled between the 1970s and 1990s.

Fifth, the foregoing trends explain, in part, the steady upward march in long-term unemployment since the 1960s. Figure 2 illustrates the growth in the percent of unemployed persons who have been out of work for 6 months or more. This percentage has spiked dramatically since the Great Recession of the late 2000s. But even aside from this spike, the long-term secular trend has been upward.

Sixth, we have also seen a shifting of risk from employers to employees, especially in relation to the employment-related benefits that workers have historically counted upon. For example, Figure 3 shows the increase in defined contribution pension plans (in which employees absorb more of the risk than employers) and the decline in defined benefit plans (in which the employer absorbs more of the risk by guaranteeing a certain level of benefits). Other types of employer-provided benefits have also shifted away from providing adequate security for American workers.

Finally, a rising percentage of Americans say that they are insecure in their jobs. Figure 4 shows the increasing trend in the percentage of people responding that they both think it is very or fairly likely that they will lose their current job within the next year and think that it would not be at all easy to find another comparable job. Since this rise takes into account changes during this period in the business cycle and underlying demographics, it is consistent with the explanation that there has been a sea change in employment relations in the United States toward more precarious employment. Figure 4 also shows that workers want more job security even as the opportunity for such security is much reduced. Work has not only become more precarious, but workers are feeling the change and concerned with it.

A New Social Contract

The question, then, is how do we as a society respond? A simple answer: A new social contract is needed to tackle the conse-

quences of this growth in precarious work. The contract must be sensitive to the conditions that led to the transformation of employment relations in the first place. Labor, product, and capital markets are now global phenomena, and they interact jointly to intensify price competition. The rapidity of technological innovation both forces companies to become more competitive globally and makes it relatively easy to move goods, capital, and people within and across borders at an ever-accelerating pace. Outsourcing and temporary work are increasingly available options for reducing costs. Neo-liberal ideologies and policies have encouraged a limited welfare state, weakening of unions, lowering of taxes and fees on businesses, and fiscal discipline taking precedence over social protections.

All countries are faced with the core problem of balancing flexibility for employers and security for workers. But countries have sought to solve this dilemma in different ways depending on their institutional and cultural traditions. Flexicurity models—originating in Europe and now spreading to Asia and elsewhere and which involve both employers and workers in a cooperative effort—suggest that labor market institutions matter a good deal. Some countries have developed institutions that equip them, more so than other countries, to address the challenges and consequences posed by the global division of labor and the tendencies toward precarious work. These countries are well positioned to exploit the labor market challenges that arise in a global market.

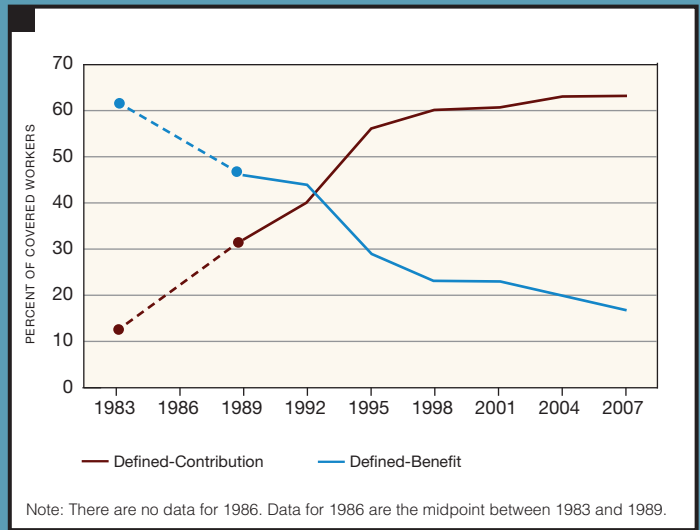
Flexicurity is win-win because it allows employers and labor markets to have greater flexibility even as workers are allowed greater protections. Flexicurity principles, however, need to be tailored to their context. The main contextual constraint in the United States is that employers already have considerable flexibility in their relations with employees. It's accordingly a non-starter in the American context to suggest flexibility-reducing innovations. The major challenge, then, in adopting flexicurity with an American face is to provide workers with security in dealing with the changes that have occurred in labor markets and employment relations without jeopardizing the already considerable flexibility upon which U.S. firms count.

This challenge can be met. The following are the three main features of a comprehensive new social contract that meets the challenge.

Economic Security: People must be assured an adequate level of current and future income if they are to be induced to make investments and assume risks. Consistent with the practice in many developed industrial countries, the highest priority should be given to providing three types of social insurance: portable health insurance benefits; more generous and secure retirement benefits; and expanded unemployment benefits and other wage supports (including assistance with acquiring new skills and relocation). These types of insurance help people navigate the increasingly treacherous transitions between jobs and employers and, just as importantly, they give them the confidence to assume risks in investing in human capital or exploiting entrepreneurial opportunities.

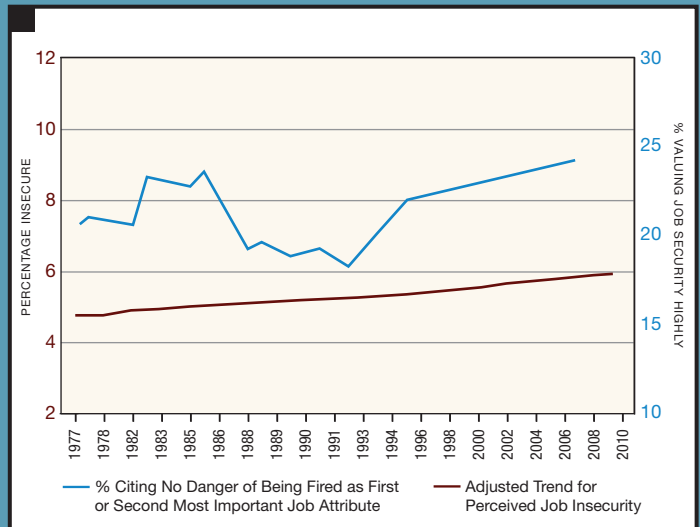
Representation Security: The often-unappreciated virtue of

FIGURE 3. Trends in defined contribution vs. defined benefit pension plans, 1983–2007



Source: <http://stateofworkingamerica.org/charts/workers-with-pension-coverage-by-type-of-plan-1983-2007>.

FIGURE 4. Trends in perceived job insecurity, 1977–2012 (trend adjusted for unemployment rate and labor force characteristics) and in the extent to which workers value security as highly important



Source: General Social Surveys, 1977–2010.

allowing for some form of collective representation among workers is that it forces employers to adopt long-term rational strategies. Put simply, employers are more likely to adopt high-road strategies if prodded by strong unions or other forms of worker organization that encourage collaborative efforts between managers and workers and make it costly to abuse or exploit workers. The new forms of organization won't simply be replicates of traditional industrial unions in the United States. These unions engaged in collective bargaining with employers (either single employers or coordinated groups), and the main

focus was on bread and butter issues such as earnings and job security. The growth of precarious employment relations has reduced workers' attachments to their employers and increased the salience of labor market intermediaries that help to create channels for mobility between firms. It's not just a matter, then, of ramping up conventional unions. The new generation of worker organizations must adapt to and match up with changes in the structure of the economy and the organization of work.

Skill Reproduction Security: A new social contract must also help workers and employers cope with the likelihood that all workers will have to move among jobs relatively frequently. People need access to basic education and vocational training, thereby helping to retrain and prepare them for good jobs. The importance of education and job-related training cannot be over-emphasized. The explosive growth of information technology and the escalating importance of knowledge in the economy have underscored the significance of skills and education for obtaining and performing well in high-quality jobs and for avoiding confinement to bad jobs. Life-long learning is becoming more essential than ever, due to the need for people to adjust to the technological changes that help to create job insecurity and uncertainty. Capitalizing on the skills and knowledge of American workers also enhances the competitiveness of American firms, which cannot compete with developing countries on the basis of low labor costs.

Enhancing economic security, representation security, and skill reproduction security will result in the creation of better jobs. Employers will be encouraged to adopt "high road" employment systems and be incentivized to create more skilled jobs to take advantage of a higher-skilled workforce. More economic security is also likely to spur entrepreneurial activity and make people more willing to invest in their human capital. Greater representational security will help to redress the balance of power between employers and labor and also spur the creation of good jobs.

Moreover, these three types of security are likely to facilitate the acquisition of other forms of security. Workers with representational security are more likely to enjoy greater occupational health and safety. And workers with greater economic and skill security should be better able to get new jobs and be retrained should they lose their jobs or if the labor market does not provide sufficient job opportunities.

Implementing the New Social Contract

A common refrain in these difficult economic times is that there aren't any new ideas about fixing the economy. That's not true. Although flexicurity is hardly a new idea outside the United States, it is new to the U.S. context and, contrary to conventional wisdom, it should have a special resonance in the United States precisely because it allows us to build on our strong commitment to maintaining employer flexibility.

This isn't to suggest that a flexicurity program will be easy to implement. If we're serious about putting the model into practice—and we should be—it will require a complicated dance

among government, business, and labor. Mobilizing these three partners is difficult. There are numerous obstacles produced by (a) ideological disagreements about the appropriate role of the government in the economy and labor markets, (b) a lack of trust in the government and institutions in general, (c) the current weakness of the labor movement, which prevents workers from exercising voice and labor from being a countervailing force, (d) businesses seeking to cut costs and lobbyists trying to obtain favorable regulations for their clients, and (e) the economic challenges imposed by concerns over budget deficits, slow growth, and stubbornly high unemployment.

Nevertheless, a combination of strategies that emanate from the "top" as well as the "bottom" is likely to be most effective, with bottom-up solutions perhaps especially attractive in the short-run given the current political deadlock. Although some top-down interventions will ultimately be needed to create the requisite legislative and regulatory environment, there's much that can be done even now at a more local level. The Hosiery Technology Center in North Carolina illustrates, for example, a cooperative training and retraining initiative among employers' groups, local governments, and community colleges. There are likewise important collaborative efforts in North Carolina and in other states between community colleges and firms in the biotechnology industry to train (and retrain) workers for new jobs.

It's also possible to develop at least some flexicurity-flavored features in a gradual fashion by building on existing institutions or laws. By taking small steps, we can avoid direct confrontation with entrenched interests and help to circumvent political blockages. A version of this strategy was used recently in New Jersey, where paid family leave was added to an existing law (the Temporary Disability Benefits law). Another promising application of this strategy builds on the Trade Adjustment Assistance (TAA) legislation to facilitate the transition of displaced workers to new jobs. The TAA originated in the early 1960s and was designed to protect workers in manufacturing industries from job displacement produced by import competition. The transition mechanism within TAA could be replicated and expanded beyond manufacturing into service industries and extended to cover reasons for job displacement in addition to import competition.

It's possible, then, that we'll drift slowly and gradually to a flexicurity-flavored labor market, not because a grand political consensus is forged, not because there's some overriding public outcry for it, but simply because it works well for all involved. Although it's perhaps unlikely that an overt flexicurity movement will develop in the near term, the smart money will be carefully watching these local experiments in flexicurity and tracking their spread. If it does become a fad and even a movement in the long run, its simple mantra will be that reforms taking on precarious work are not just good for U.S. workers, but also for U.S. competitiveness and profits.

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