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ABSTRACT

One of the most pressing questions facing researchers and policy makers today is how economic restructuring has affected the nature of work and mobility in the United States. Emerging research has begun to focus on analyses of longitudinal datasets, taking up such questions as whether wage growth has deteriorated and whether the rate of job changing has increased. A study compared two cohorts of young men from the National Longitudinal Surveys. The original cohort entered the labor market in the late 1960s at the tail of the economic boom and was followed through the 70s decade; the recent cohort entered the labor market in the early 1980s after the onset of economic restructuring and was followed through the early 90s. The research design observed both cohorts for 16 years at exactly the same ages--respondents were in their late teens and early 20s at the start of the survey and in their mid-30s by the end. Findings indicated that, in recent years, young workers' transition to the labor market has become more volatile and is also taking longer. Job instability has increased for young workers during the 1980s and early 1990s. As a result of this higher job instability, youth in recent years have worked for more employers and have shorter tenures with one employer. The recent cohort has failed to capture the all-important wage gains from early job searching, while at the same time experiencing greater inequality in those gains. The upshot is declining wage mobility and more unequal wage mobility. (YLB)

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WORK AND OPPORTUNITY IN THE POST-INDUSTRIAL LABOR MARKET

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American workers have witnessed striking changes in their jobs and wages during the last three decades. But it is no longer simply a matter of growing income inequality. The concern of the country is now focused on even deeper changes, which go to the root of what it means to have a job and to build a career. There is strong anxiety about being laid-off and downsized. Young workers are pessimistic about their chances for upward mobility, and education no longer seems a guarantee of success. Workplaces are being restructured, yet not always in the high-performance mold. The recovery of the 1990s did not prove to be the cure-all that other recoveries have in the past and disadvantaged groups in particular are being left behind. A recent survey found that the majority of workers feel the need for some sort of representation and voice in their workplace, but are unsure about what form it should take (Freeman and Rogers 1994).

In short, there is a growing sense that Americans are working under new rules. The very character of the American employment relationship appears to be changing — in how the workplace is organized, in how workers are matched with jobs, and in how wages and the terms of employment are set.

In stylized form, the past was modeled on the life-long job. Ideally, workers started at one company, stayed with it, and could expect job security and yearly raises. In return, employers had a committed workforce and control over labor supply. They also had a customized training system. Since workers learned on the job, they brought firm-specific knowledge and tested skills to each new position. This system culminated in the internal labor market — a structure that had its [illegible] but also incurred a set of costs. Because employers made at least an implied (and often a formal) commitment to their employees, they could not easily hire from the outside, change the number of hours worked, or alter wage and benefit scales (Kochan, Katz and McKersie 1986, Hyman 1988).

The terms of this trade-off have apparently deteriorated for American employers. Starting in the mid-70s, cost reduction became a more important basis of competition, and internal labor markets are costly to maintain. Permanent workers with long tenures need to be paid high wages and expensive benefits; some will sit idle during slack demand and others must be retrained each time technology changes. Cost reduction thus becomes a matter of flexibility in who is hired, for how long, and for how much. To get this flexibility, employers are now more willing to forego the motivation and firm-specific knowledge of long-term employees. Rather than grooming workers for future advancement, they are more likely to reduce the number of permanent employees and rely on the external labor market to provide skilled workers (Cappelli 1995, Osterman 1994).

Both of these accounts are to some extent overdrawn. Even at the peak of mass production, many workers never directly experienced the benefits of life-long employment. Conversely, internal labor markets are alive and well for "core" workers in the new economy. The point, though, is that while both employment systems exist, their relative weight appears to have shifted noticeably.

From one perspective, this is good news. After more than a decade of decline, productivity has increased in many industries, with an attendant boom in profits. Workplaces have become more efficient, technological innovation has skyrocketed, and American global competitiveness has clearly been restored. In a variety of occupations, flexible jobs have enriched autonomy at work and made easier the balancing act between family and career.

From another perspective, however, the news may not be so good. In public discourse, there is a growing sense that American society is becoming one of winners and losers, that individuals' life chances are becoming more unequal (Frank and Cook 1995). This idea is also starting to appear in the academic community. For significant numbers of workers, employment is being externalized and weaned from internal labor markets. When firms lower costs by shedding in-house labor that is not absolutely critical to their operation, they potentially drive a wedge between core and peripheral workers. What happens to promotions, raises, and "climbing up the ladder" when workers move from one employer to the next, and when the employers themselves may be increasingly reluctant to invest in on-the-job training? The traditional routes to upward mobility break down. It is likely that skilled workers in professional occupations can create new career paths that preserve their opportunities. But for occupations further down the ladder — much more numerous in absolute terms — the consequence may well be declining opportunities for upward mobility and stagnant career development.[1]

THE RESEARCH GAP

In sum, one of the most pressing questions facing researchers and policy makers today is how economic restructuring has affected the nature of work and mobility in America. This is a very complex question, and empirical research has had a difficult time answering it.

There is now an established body of research which documents an unprecedented rise in wage inequality, declining wages for low-skill workers, and a marked deterioration in economic welfare for parts of the African American and Hispanic populations (Danziger and Gottschalk 1993). Many of these trends continue to the present, despite a strong economy and tight labor market. Forces deeper than the business cycle are at work, in particular the globalization of markets, new technology, and changes in wage-setting institutions. Moreover, the negative trends in wages are not simply the result of a temporary disequilibrium caused by the shift from manufacturing to service industries. Low-wage jobs continue to proliferate in the post-industrial economy, despite technologies that favor skilled labor and despite the introduction of high-performance work systems (Bailey and Bernhardt 1997).

Beyond this level, however, the picture becomes much less clear. The problem is that we are asking a very deep question — have the rules of work and career mobility changed — and this is difficult to test directly. It requires measurement of internal labor markets, of the processes by which workers are matched with jobs, of the process by which wages are set, and of workplace hierarchies. We have never been able to directly measure all of these dynamic processes.

Longitudinal data can get us closer than cross-sectional data, however. If career development and upward mobility has been transformed in the new economy, then this should be observable in workers' employment histories. Emerging research has therefore begun to focus on analyses of longitudinal datasets, taking up such questions as whether wage growth has deteriorated and whether the rate of job changing has increased. The hope is that these types of studies will enable us to gain a better understanding of exactly how the American employment relationship, broadly conceived, has changed over the past three decades. Our project falls squarely into this emerging field, but with a unique research design and a powerful methodology.

SUMMARY OF FINDINGS

In this study, we compare two cohorts of young white men, from the National Longitudinal Surveys.[2] The original cohort entered the labor market in the late 1960s at the tail of the economic boom, and was followed through the 70s decade. The recent cohort entered the labor market in the early 1980s after the onset of economic restructuring, and was followed through the early 90s. The strength of this research design lies in the fact that we observe both cohorts for a full 16 years, at exactly the same ages — respondents are in their late teens and early 20s at the start of the survey, and are in their mid-30s by the end. Throughout, rich and detailed information was gathered on schooling, work history, and job characteristics.

Our logic is that if indeed a new labor market structure is emerging in this country, then the recent cohort of young workers has been the first to experience it in full strength. We have therefore compared the progress of the two cohorts of young workers during the initial stages of their careers, but under different economic conditions. It is during this period that workers lay the groundwork for an eventual long-term relationship with an employer, allowing us to ask whether there have been any changes in the structure of that relationship. It is also during this period that the bulk of lifetime wage growth and mobility occurs, so that any changes we identify will have strong implications for the eventual distribution of worker welfare.

In what follows, we summarize our findings. We should note that the scale of our analysis is broad and that we are comparing the two cohorts on a host of dimensions and criteria. We start with the simplest findings and successively move to the results of more complicated analyses.

- **In recent years, young workers' transition to the labor market has become more volatile and is also taking longer.**

It is widely recognized that there is considerable diversity in how youth make the transition from schooling into the labor market. Work often begins during high school, and after graduation, there is frequent exit and reentry into the labor force. Some pursue higher education immediately, others first spend several years working, and still others interweave the two in complex ways. As a result, there are marked differences in how quickly youth establish long-term relationships with employers.

Virtually all of the young workers in our two cohorts have made the transition to permanent employment by the end of the survey, and many have accumulated substantial work experience along the way. However, we found several important differences in how the two cohorts got there.

First, the transition to permanent employment has become longer in recent years. Young workers who do not go on to college are more likely to be intermittently unemployed and to rely on part-time jobs for a greater number of years. This is especially marked among high school dropouts. Those who do go on to college are more likely to work while enrolled and to significantly draw out that period of enrollment. For both groups, it takes longer to find a full-year job than it has in the past.

Second, not only has the transition become longer, it has become more volatile. The recent cohort is less likely to make a single and clean transition to the labor market. Instead, these young workers are more likely to move back and forth between work, unemployment, enrollment, and non-participation. The frequency of these interruptions has increased as well. Workers at all levels of education have experienced this greater volatility, but it has been most pronounced among those with less education.

Another indicator comes from looking at the industries in which these young workers are employed. There is noticeably more shifting between industries in the recent cohort, at all ages. Some of this is driven by deindustrialization and the shift to service industries, but not all of it.

The greater volatility on these dimensions has taken its toll on the work experience that young workers accumulate. Average work experience is similar across the two cohorts. But there is considerably more variability in the amount of work experience that the recent cohort has accumulated, and this holds true across all education groups.

- **Job instability has increased for young workers during the 1980s and early 1990s.**

We have just seen that the transition to the labor market has become more volatile. Is it also true that job changing in particular has become more prevalent? This is currently a topic of much debate and the results from our study are therefore important.

Specifically, we find markedly higher job instability among young workers in recent years. The odds of a two-year job change are 34% higher for youth in the recent cohort as compared to the original cohort. This is after we adjusted for basic factors that drive job changing, as well as differences in attrition across the two cohorts. The higher instability has been felt by all education groups and so has not been caused by declining stability among the less educated only.

Some of the cohort difference can be explained by lower marriage rates and longer periods of college enrollment. Further, some of the increase in job instability can be explained by the broad shift of the U.S. economy toward the service sector. The recent cohort is less likely to be employed in the stable manufacturing and public sectors, and more likely to be employed in the service sector, especially high-turnover industries such as retail trade and business services. Moreover, even traditionally stable industries such as manufacturing no longer confer the stability to young workers that they once were able to provide.

We also restricted the analysis to youth that had permanently entered the labor market and "settled down." The results are quite similar, and so the difference we have identified is not just a legacy of churning in the labor market early on.

- **As a result of this higher job instability, youth in recent years have worked for more employers and have shorter tenures with one employer.**

It should come as no surprise that if the recent cohort is changing jobs more frequently, then its tenures, on average, will be lower. We find that the recent cohort has worked for more employers, and that its median tenures grow progressively shorter compared to those of the original cohort, as the young workers age. The decline in tenure is consistent across all education groups. The result is that among workers in their early 30s, 32 percent of the original cohort but 38 percent of the recent cohort had tenures shorter than two years. Conversely, 30 percent of the original cohort but only 24 percent of the recent cohort held tenures of seven years or longer. It is important to understand that even if the two cohorts suddenly became identical in the rate of job changing, this relative difference in tenure length would persist over time. We find no evidence that job instability is converging, so it is reasonable to assume that the two tenure distributions will likely grow even further apart in the future.

- **The recent cohort has failed to capture the all-important wage gains from early job searching, while at the same time experiencing greater inequality in those gains.**

A solid body of research has established that job changing early in the career is highly beneficial, yielding greater wage gains than staying put with one employer. Roughly two-thirds of lifetime wage growth for the average male worker occurs during the first 10 years of labor market experience and "job shopping."

In this context, our findings are quite worrisome. Compared to the original cohort, the recent cohort has failed to capture wage growth precisely where it is most critical: early on, during the job search process. Breakdowns by education show that it is young workers moving directly from high school into the labor market who have borne the brunt of the burden. The recent cohort also saw a drop in the returns to job changing later on, during the mid-30s, and this is shared by all but the most educated. We found no such drop in the returns to staying with an employer — if anything, they have gotten stronger — yet as we have seen, fewer in the recent cohort are able to capture these gains.

Finally, the variability in these wage gains has increased. This is especially pronounced among job changers and is not attenuated as the young workers get older or among the better educated.

In short, the process of job search and job shopping, so important to young workers in the past, no longer confers the same benefits as it once did.

- **The upshot: Declining wage mobility and more unequal wage mobility**

We have documented a series of marked differences between the two cohorts of young workers — in terms of smooth entry into the labor market, the likelihood of becoming unemployed, the amount of work experience that is accumulated, and in the extent of (and returns to) job changing.

In our final analysis, we assess the impact of these trends on the prospects for upward mobility. We ask two questions. First, has the amount of upward mobility changed, on average, for the recent cohort as compared to the original cohort? Second, has mobility become more unequal, so that there is an increasing divergence in the life chances of young workers? The short answer to both questions is yes.

Wage growth is one of the most fundamental measures of successful career development and career mobility. Each individual worker builds his own distinctive trajectory of wage growth as he grows older. Some of those trajectories are steep, with substantial wage increases each year, and others are flat, with little wage growth over time. It is these wage trajectories, or profiles, that capture the essence of upward mobility. And it is these wage profiles, built over the 16-year survey period, which we compare across the two cohorts.

First, in comparison to the past, we find that young workers in recent years have seen stagnant wage growth as they get older. This stagnation has been felt largely by those without a four-year college degree and is especially pronounced among high school dropouts. Second, we find that the permanent, long-term wage growth of young workers has become significantly more unequal and polarized. Thus there are more workers who have steep wage profiles with substantial wage growth, and more workers who have flat profiles with minimal (and sometimes even negative) wage growth. This polarization, or fanning out of the profiles, becomes progressively stronger as the young workers age and is consis-

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tent across different levels of education.

In order to explain this polarization in wage growth, we examined the impact of several factors: accumulated work experience, education level, tenure and recent job changes, industry, and hours worked. All help to explain the increase in inequality. The relative gap between those who do and those who do not receive a college degree has widened considerably in the recent cohort — it is not so much that more educated workers are doing better, but that less educated workers are doing worse. Work experience has also become more important, but as we know, the recent cohort shows greater variability in the amount of experience accumulated. Job changing early in the career does not yield the same wage gains as it once did, yet more young workers are changing jobs. Finally, while the recent cohort is more likely to have jobs in the service sector, which on average has lower wages than the industrial and public sectors, even employment in the latter does not yield the same wage gains as it once did.

These factors, in combination, explain roughly half of the difference in wage profile inequality between the two cohorts. The difference is not eliminated, however, and it remains pronounced and significant. By the mid-30s, the recent cohort continues to have substantially more workers who experience either low or high wage growth and fewer whose wage gains fall in the middle.

The bulk of lifetime wage growth occurs precisely during the period that we have studied here: the first decade and a half of labor market experience. Thus we have observed most of the mobility that these young workers will experience during their career. Absent a truly dramatic shift in the American economy, the greater inequality in upward mobility that we have documented here will persist over the life course of the recent cohort.

CONCLUSION

A new generation is entering a transformed labor market, and especially for those without a college degree, the prospects for a living wage, stable employment, and upward mobility are not at all guaranteed. Our evidence suggests that career development has become a more volatile and less stable process. Partly as a consequence, wage growth early in the career has been hit on two fronts — it has stagnated and at the same time become more unequal. To the extent that wage growth tells us something about upward mobility, we have seen a deterioration and growing polarization in that mobility. Those with fewer skills and less education have clearly gotten hit the hardest, but education has not proved the buffer it once was; workers higher up the skill and education ladder have shared in these trends, albeit in dampened form. Deindustrialization has had an impact as well, and the traditionally unionized industries that once provided stability and solid wages cannot do so to the degree they once did. In short, our findings are suggestive that there has indeed been a marked shift in the American employment relationship, and that the rules of work and career mobility have changed.

[1] The top ten growth occupations are retail sales, registered nurses, cashiers, office clerks, truck drivers, waiters/waitresses, nursing aides and orderlies, janitors and cleaners, food-preparation workers, and systems analysts (U.S. Department of Labor 1994).

[2] The restriction to white men was necessitated by data limitations.

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