

6 Segmented labour markets

6.1 Introduction

In recent years different explanations of how labour markets operate have been proposed by a number of economists dissatisfied with neoclassical theory in general and its explanation for labour market disadvantage in particular. Some of these alternatives simply extend neoclassical models to include the effects of various institutional factors. Others, however, have sought to develop a new theoretical approach. All reject a predominantly competitive analysis and emphasise instead the fragmented nature of labour markets and the importance of institutional and social influences upon pay and employment. A common label for these alternative approaches is segmented labour market theory. The underlying theme of these approaches is that the labour market should be viewed as a collection of parts or segments. One segment may consist of high-waged, male, white workers, for example, and another of low-waged, female, non-white workers.

The concept of a segmented labour market has been applied in a variety of ways. Analyses differ in the outcomes of interest (pay, employment stability or mobility), in the delineation of segments (by job, industry, gender, race or age) and in the methodology of investigation, whether qualitative or econometric (McNabb and Ryan, 1990). There is, however, a consensus among segmentation economists about the way the labour market can be conceptualised and about how segments function. This convergence of views is primarily encapsulated in one particular variant of the segmentation approach, the dual labour market theory.

6.2 Dual labour market theory

According to this theory, the labour market is composed of self-contained sub-markets or segments. Segmentation economists argue that ignoring the different identities of these segments and the constraints they place on the workers makes it impossible to understand the nature of labour market disadvantage. Basically, the dual approach hypothesises that a dichotomy has developed over time between a high-wage primary segment and a low-wage secondary segment. Working conditions in the primary segment are generally favourable; there is steady employment and job security, and the rules that govern the organisation of employment are well defined and equitable. The characteristics of secondary employment, on the other hand, are less favourable. Work here has little job security and there are high turnover rates. There are few opportunities for training or advancement and the work tends to be menial and repetitive.

Corresponding to this duality in the characteristics of jobs is a further distinction between primary (core) and secondary (periphery) industrial sectors. In the core sectors, firms have monopoly power, production is on a large scale, extensive use is made of capital-intensive methods of production and there is strong trade union representation. These establishments operate in national and international product markets. In contrast, employment in the periphery is located in small firms that employ labour-intensive methods of production, operate in competitive local product markets and have low levels of unionisation. Although they are not entirely coincidental, there is a considerable overlap between primary jobs and core industries, on the one hand, and secondary jobs and periphery industries on the other.

In contrast to the supply side and individual factors which dominate neoclassical models of the labour market, segmentation theory emphasises demand side and institutional factors. Specifically, segmentation in the labour market arises because of the characteristics of jobs rather than differences in worker attributes, such as education and training. Secondary jobs, however, are filled largely by groups whose attachment to paid employment has traditionally

been weak, notably non-whites, females and youths. Primary segment jobs, on the other hand, tend to be the preserve of 'prime age' white males.

The segmentation that exists in the labour market primarily reflects the nature of **internal labour markets** (this is the labour market that exists within a firm – it determines how wages are set and labour is allocated within the firm) within which primary and secondary jobs are found. Internal labour markets can best be thought of as the type of labour market that exists within an organisation. At one extreme, the internal and external markets may be very similar: the structure of wages and the allocation of workers within the organisation will be determined simply by external market conditions. In this case, the internal market is similar to what is happening outside the organisation. At the other extreme are organisations (usually large employers) in which wage structures and employment policies are set apart from external labour market conditions. Such internal labour markets will often be highly structured and regulated, and have employment systems that confer significant advantages to those already employed in the organisation – 'insiders' – compared to outsiders. This is because access to jobs within the firm is granted preferentially, even exclusively, to existing members of the organisation via promotion along well defined 'job ladders', often on the basis of seniority rather than productivity. Outsiders, on the other hand, have access to only a limited number of low level positions.

Pay rates within structured internal labour markets do not respond to demand or supply conditions in the external market but rather to the specific requirements and needs of the organisation. Imbalances that develop over time in the supply and demand of particular types of labour *vis-à-vis* the external labour market are dealt with through a variety of non-wage adjustments, including recruitment and training, job redesign and subcontracting. Crucially, emphasis is on the institutional and social nature of internal labour markets rather than on any efficiency or economic considerations that may be proposed for their emergence. In order to provide an explanation of labour market disadvantage it is clearly important to understand why some organisations adopt employment systems that are protected from external market forces and why workers from disadvantaged groups have only limited access to the favourable conditions of work they provide.

Three features of the segmented labour market theory clearly differentiate it from neoclassical labour economics. These are described next.

6.2.1 Job rewards

Segmented labour market theory views the labour market as systematically differentiating the job rewards achieved by comparable individuals. The high pay of primary workers cannot be explained simply in terms of their higher quality of labour since many secondary workers are capable of performing well, given the opportunity to do so. The labour market is thus seen as a key ingredient in the generation of economic inequality and not a passive mirror of the inequalities which people bring to it. Wage structures are differentiated by employer characteristics rather than worker attributes.

This is not to argue that all secondary workers are as good as all primary workers. Labour quality will, in general, be higher in primary jobs. The important point, however, is that differences in labour quality across jobs is less than that in pay and the direction of causality between pay and labour quality is reversed. Wage structures are taken as given, differentiated by employer characteristics rather than worker attributes. Under such conditions high-paying employers can take their pick from the applicant queue and rationally hire labour of high quality. The

compensation, however, is only partial, with the differences in job rewards exceeding that in worker quality.

Labour quality and labour productivity must, therefore, be carefully distinguished. Productivity is an attribute of the job rather than the worker and depends upon the equipment available at the workplace and the product market served. Primary workers have higher productivity than secondary segment workers because of the jobs in which they work rather than because of who they are. Were they confined to secondary employment, with its labour-intensive techniques and unfavourable product markets, their productivity would be correspondingly lower. Worker quality, in contrast, is defined in terms of attitudes, behaviour and values.

In many instances, the skills that exist at the workplace involve learning by doing and are characterised by their informality in contrast to the more formal investment framework proposed by human capital theory. Acquisition of these skills involves being 'shown the ropes' by fellow workers and is not a distinct process within the firm. It is more a process of socialisation that involves being accepted by existing workers, as well as the internalisation of particular sets of norms and values, than a formal training programme. Certain groups of workers are thus segregated from better jobs because they are less acceptable socially rather than because they lack ability. Employers may also believe that particular characteristics, such as gender and race, correlate with those values and norms which characterise primary segment employment.

A similar divergence of interpretation also exists for employment stability. It is argued that the role in the family (for example youths and married females) or in society (for example inner-city, non-whites) of many secondary segment workers may mean lower intrinsic job stability than that displayed by primary workers. The segmentation approach, however, emphasises the instability of jobs not workers. Many secondary workers, particularly married females, may be interested in and available for steady work but are denied access to it. Thus while the supply side does exert an influence, it is seen as less important than the demand side and social institutions in explaining the differentiation of outcomes in the labour market.

6.2.2 The role of market forces

The second distinguishing feature of the segmented labour market theory concerns the role of market forces in affecting labour outcomes. Although the impact of market forces is not denied, their role is seen to be in the product market rather than the labour market. The part played by labour market influences, particularly excess demand but also trade unions, is seen as subsidiary to such features of the product market as demand variability, employer power and production technology. Similarly, internal labour markets are thought to develop not so much as the result of the type of technology and the skills employed by the firm, as of the power relationships and control strategies that are required within the organisation.

A key distinction employed in the segmentation literature is that between those jobs and workers in firms with structured internal labour markets and those in firms which are open to external labour market conditions. What, then, are the consequences of this distinction for the structure of wages? As we discussed earlier, jobs in the primary segment are generated by employers in core sectors whose ability to pay is boosted by large size, high capital intensity and high profitability, as well as a degree of monopoly power in their product markets. Secondary jobs are provided by firms located in the periphery, where firms are smaller and capital intensity is lower, and product markets are highly competitive on price. According to the theory, wages in the periphery will, as a result, be set at competitive levels which, since the secondary segment is characterised by an abundant supply of labour, will be low.

The advantages enjoyed by core firms do not, however, automatically result in favourable employment conditions for workers. Powerful employers can use their substantial resources to deny special advantages to employees through actions such as union busting and the relocation of production to low-wage, low-unionised regions. Conversely, even highly competitive product markets may yield core rather than periphery jobs if employees are well organised and able to fend off competition from home and abroad – as in parts of the coal, trucking and construction sectors in the US.

In any event, core employers need not extend primary jobs to all their employees. As a range of functions, particularly services such as cleaning and catering, is generally limited to secondary status either within the firm or in subcontractors, the contours of segmentation run through individual firms, not simply between sectors. Similarly, small firms may not offer just the low pay and job instability of the classic sweatshop, they may be the source of jobs with the high rewards offered by producers of speciality and high technology goods.

The differentiation of pay within internal labour markets is explained in neoclassical theories in terms of firm-specific skills which can only be developed through on-the-job training. The senior workers who possess such skills must be sufficiently well paid and secure in their jobs to ensure their willingness to train others. A sharper differentiation from neoclassical analysis, however, is achieved by elaborating a further factor, namely custom. The stability of work groups within internal labour markets is a favourable environment for the generation of norms or accepted ways of doing things. Employers must accommodate such norms if production is to continue without constant interruptions. Custom can be seen as both the accumulated total of norms which develop often quite informally as well as a norm in itself – the requirement that established practices be respected. Thus two groups of workers for whom the accepted practice is that they should be paid the same will often be paid the same, even if the presence of excess demand for one and excess supply for the other calls for different pay rates. Similarly, the job evaluation techniques that determine pay in many internal labour markets reward skill and responsibility in proportions which vary not with the relative availability of workers in the external market but with their relative position within the organisation.

6.2.3 Tastes and attitudes

In contrast to the neoclassical assumptions of given tastes and attitudes, the segmented labour market theory treats both of these as endogenous. In other words, the prejudices that some groups hold against others, the attitudes that some disadvantaged groups have about work and so on are not taken as given. There are reasons why these prejudices and attitudes develop as they do and understanding these is essential in order to understand how the labour market operates to the detriment of these groups. Thus, on the one hand, unstable inner-city employment can be attributed to an adverse interaction between individual attitudes to work and to wider issues, while on the other hand, it may be attributable to the type of work which may be repetitive, menial and low paid. The experience of secondary jobs cumulatively leads to disadvantaged workers developing high quit rates and other bad work habits. Workers employed in bad jobs become bad workers. Similarly, the confinement of married women to secondary segment jobs reflects preferences that are moulded by their subordinate positions within both family and society. Finally, our understanding of discrimination can only be achieved once we recognise that some groups in society actually benefit from it.

6.3 The roots of segmentation

Why does segmentation occur? One approach to this question focuses upon the evolution of the product markets, from the competitive and the localised to the producer dominated, and from the national to an international market. Technological change makes capital-intensive methods of production possible. Employers, however, are unwilling to undertake large-scale investment unless the product demand is stable and predictable; when demand is variable, labour-intensive techniques are preferred. A growing division is found between firms which cater for stable markets and those in unstable markets. Firms with stable product demand create primary conditions of employment, including, notably, job security. Firms which face unstable demand operate in the secondary segment of the labour market.

The contours of segmentation, defined according to stability, fluctuate depending on the state of the economy. When labour markets are tight and product markets favourable, employers seek to tie workers to the firm by expanding the number of primary jobs. However, when there is a downturn, particularly one that proves longer and deeper than anticipated, employers seek to increase the share of secondary jobs, emphasising the virtues of functional flexibility, in terms of workers being able to undertake a number of different tasks (multi-skilling) and numerical flexibility – varying the number of workers through lay-offs and short-time working.

The theory of segmentation advanced by radical economists (for example, Rebitzer, 1993) takes a different tack and focuses upon changing systems of organisation within capitalist firms. The key to segmentation, they believe, is the strategy employers use for the control and motivation of their workforces. Systems of labour control within organisations that had been developed prior to the 1950s, notably the personalised discipline of 'simple control' and the impersonal machine-pacing of 'technical control', proved increasingly ineffective as some firms turned into large corporations and worker organisation became stronger and more influential. These large employers turned instead to 'bureaucratic control'. As well as providing job security and career prospects in order to win the loyalty of employees, they developed impersonal discipline and monitoring procedures. Internal labour markets emerged and with them the differences between the job rewards of primary employers and those of employers who lacked the incentive to abandon the secondary segment.

The forces which led some employers to create primary jobs thus began with the emergence of the large corporation. Simple control, the open, highly visible, direct command rule by supervisors over subordinates, proved less viable in large plants; the interdependence between workers in mass production systems made it difficult to measure the output of individual workers. Additionally, the power wielded by large firms over product markets permitted them to take a longer view of the market and its likely level of stability. As a result they could offer superior job rewards. At the same time, worker solidarity was undermined by the introduction of job ladders to achieve status differentiation between workers. The rationale for the job ladders was to motivate workers and generate commitment rather than develop skills. The internal labour markets of primary employers represents a sophisticated version of the traditional capitalist strategy of 'divide and rule'.

Within the radical approach, the position of disadvantaged groups is seen as reinforcing the tendency toward segmentation. Segmentation limits the opportunities available to women and minority groups while the forces which support discrimination also help promote segmentation. The differentiation that exists between jobs is easier to maintain when it is associated with differences in workers' characteristics rather than the job itself.

In recent years there have been a number of changes in both product and labour markets in the UK which have led some researchers to rethink the nature of segmentation. Product markets have become more competitive, not simply in terms of increased pressure for lower prices but also in terms of demands for higher quality products and more frequent changes in product

specification. In order to achieve and maintain a competitive advantage in these changing conditions, some firms have adopted employment policies which seek to motivate and promote commitment from workers. At the same time, there has been considerable deregulation in the labour market in Britain. This has allowed firms to be more flexible in determining the conditions under which they employ workers and some firms have taken the opportunity to directly reduce their labour costs thereby moving towards secondary segment employment. Other organisations, however, have used the opportunity to introduce innovations such as team-working, multi-skilling and quality circles. Attempts to promote motivation and commitment are based on the philosophy of human resource management, thus moving the organisations into (or further into) the primary segment. However, the types of organisations which benefit from employment practices that foster stability and commitment are not only those traditionally found in the core sector and the simplistic dichotomies that have traditionally underpinned the segmentation approach have given way to differences that are a matter of degree rather than of kind.

The following case study examines the consequences of deregulating the UK docks industry. This is an industry that has used deregulation in the labour market as a way to directly reduce its labour costs. In the process, however, it has moved from the organised, primary sector into the secondary sector.

Docks: The payback

Docks deregulation has led to more millionaire managers, more redundancies, and most alarmingly, more accidents at work. Recent events at Tilbury demonstrate this dramatically. Chief executive John McNab has just pocketed £5 million from the sale of the port to Forth Port Authority. The authority, incidentally, paid nearly four times for the shares than the price paid to the dockers who were made redundant. Forth paid £81.01 for each share whereas at Tilbury the dockers were forced to sell their share for a maximum of £22.72.

To make the sale of the port an attractive proposition, the number of dockers – or cargo handlers as they are now called – has been slashed from nearly 800 to about 300 since deregulation five years ago. And the accident rate among those left has more than doubled. Before deregulation, the national dock accident rate was 3.1 per cent. Since then it has risen to 7.2 per cent. And this figure probably understates the real rate because of the increased use of casual workers, who are less inclined to report accidents.

At Tilbury, the accident rate is even higher – it stands at 7.8 per cent. This figure comes from statistics compiled by the Port Safety Organisation, to which the employers are affiliated.

Stress and fatigue are obvious factors in this increase. And that is hardly surprising when more arduous conditions of employment have been introduced at Tilbury, including compulsory overtime and double shift working. A recent Health and Safety Executive information sheet on dock work fatigue stated:

The causes of fatigue can include not only severe physical effort but also the effect of working at times that are contrary to the body's natural inclinations, e.g. at night or on some systems of shift work, intense concentration and working continuously for long periods ... This can lead to stevedores failing to ensure that they are in a safe position with the result that they are hit by a falling object or struck by a swinging load.

John Connolly, national docks and waterways secretary of the T&G, commented on the similarities of what has happened at Medway:

Tilbury was sold to the management and employees buy-out group for just £34 million and they have now sold it for £130 million ... The position is very similar to what happened in Medway

where shares were sold to staff but were soon followed by an exercise of cutting staff numbers and reducing their terms and conditions of employment. When the men refused to accept these proposals they were made redundant and were paid just £2.50 for each of their shares. Six months later these same shares were sold for £38.50 each in a takeover.

At Tilbury the signs have been evident for two years that the port has been consistently reducing the number of people employed and imposing more arduous conditions of employment, while bringing in casual labour.

Earlier this year tenders to buy the port were asked for and the successful tender came from Forth Ports Authority who bought it as a low cost base, with a low workforce with reduced conditions of employment. This had been done on the back of casual labour and imposed conditions.

At the same time there has been a significant increase in industrial injuries in the ports generally, despite the efforts of the Port Safety Organisation.

Tug workers are also suffering from attacks on their working conditions. There has been reduced manning on tugs combined with increased working hours,' said John. 'The Health and Safety Executive has stated that the longer hours, use of casual workers, and worsening conditions has led to an increase in stress and fatigue in the industry.'

Source: Pentelow, 1996