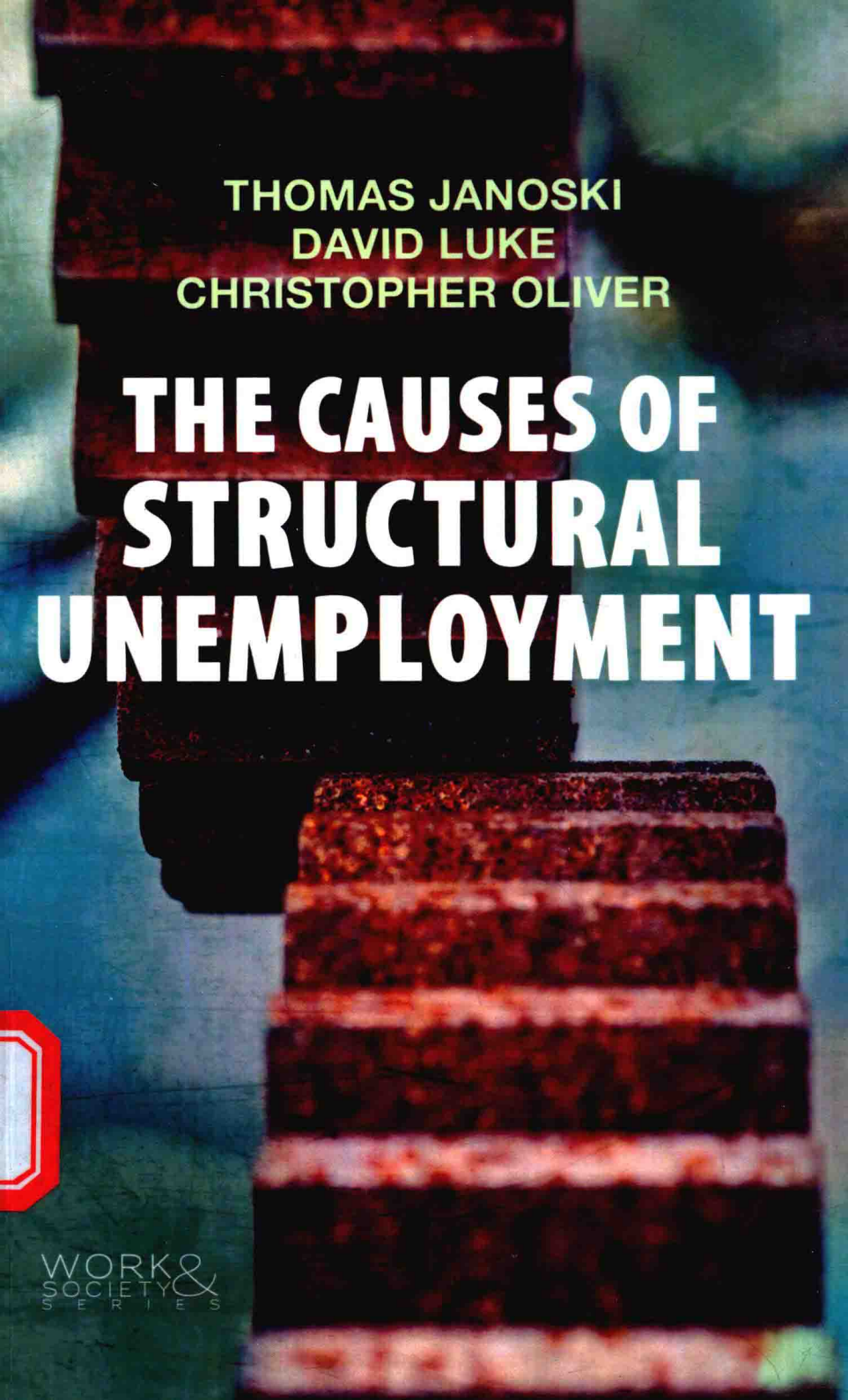
THOMAS JANOSKI
DAVID LUKE
CHRISTOPHER OLIVER
THE CAUSES OF STRUCTURAL UNEMPLOYMENT
WORK & SOCIETY SERIES

THE CAUSES OF STRUCTURAL UNEMPLOYMENT

Four Factors that Keep People from the Jobs They Deserve

Thomas Janoski,
David Luke, and
Christopher Oliver

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Thomas Janoski, David Luke, and Christopher Oliver, *The Causes of Structural Unemployment*
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Dedication

To the many workers in or previously from Michigan
who have suffered through
structural unemployment for over three decades.
There are reasons for this other than
those that you have generally heard.

Tables, Figures, and Boxes

Tables

Figures

Boxes

Note: The workers whose cases are presented in the boxes are given their actual names when they have been profiled in articles or books (indicated by a reference at the end of their story). If there is no reference listed, we have disguised the names, locations, and employers of people we have known or interviewed. None of these workers are composites that compound the problems of multiple people.

Abbreviations

AA	Trade Adjustment Assistance job training programs
ABS	asset-backed securities; a form of collateral
AIC	advanced industrialized country
ALMP	active labor market policy
AMTEC	Automotive Manufacturing Training and Education Collaborative
ARPANET	Advanced Research Projects Agency Network
ARRA	American Recovery and Reinvestment Act, which provided funds for job creation
BCG	Boston Consulting Group
CAD/CAM	computer-aided design/computer-aided manufacturing
CBTC	class-biased technological change
CCC	Civilian Conservation Corps
CDO	collateral-debt obligations; a form of collateral to back an investment
CDS	credit default swaps; a form of insurance for financial transactions
CETA	Comprehensive Employment and Training Act
CNC	computerized numerical control
CT	computerized tomography
dot.com	The dot.com bubble, when large numbers of web and high tech companies folded

FBTC	factor-biased technological change
FDI	foreign direct investment
FILM	firm internal labor market
FIRE	financial, insurance, and real estate
FLA	Fair Labor Association
FLM	firm labor market
GATT	General Agreements on Tariffs and Trade
GDP	gross domestic product
HF	hedge funds as a new and relatively lightly regulated financial institutions
HMO	health maintenance organization
ILO	International Labor Office
IMF	International Monetary Fund
JPTA	Job Partnership and Training Act
LDC	less developed country
LMI	labor market intermediary
LP-1	lean production one
LP-2	lean production two
LP-3	lean production three
LTCM	Long-Term Capital Management
M&A	the merger of two corporations, or the acquisition of one by another
MDTA	Manpower Development and Training Act
MRI	magnetic resonance imaging
NAFTA	North American Free Trade Agreement
NAIRU	non-accelerating inflation rate of unemployment
NCRC	National Career Readiness Certificate
NGO	non-governmental organization
NIRB	National Infrastructure Reconstruction Bank
NJTC	New Jobs Tax Credit program for job creation programs after 2008
NSF	National Science Foundation
NTT	new trade theory
OECD	Organization for Economic Cooperation and Development
OEM	original equipment manufacturer
OILM	occupational internal labor market
OLM	occupational labor market
OPEC	Organization of Petroleum Exporting Countries

PWA	Public Works Administration
R&D	research and development
SEC	Securities and Exchange Commission, which governs the stock market and Wall Street
S&L	savings and loan
SLAM	secondary labor market
SPV	special purpose vehicles that transform toxic assets into something mysteriously better
TAA	Trade Adjustment Assistance
TANF	Temporary Assistance for Needy Families
TARP	Troubled Asset Relief Program
TEU	twenty-foot equivalent unit
TPS	Toyota production system
UAW	United Automobile Workers
UEC	unemployment compensation adjustment or extensions
USES	US Employment Service
VaR	value at risk tax
VAT	value-added tax
WB	World Bank
WIA	Workforce Investment Act
WOTC	Work Opportunity Tax Credit
WPA	Works Progress Administration
WTO	World Trade Organization

Acknowledgments

Barry Bluestone and Bennett Harrison (1982) sounded the early warning call on outsourcing, and Ron and Anil Hira (2005) looked at offshoring more closely. But all in all, few scholars concentrate on the recent rise in structural unemployment and the jobless recession with such a wide-angle lens as we do in this book. Part of the reason is that the measure that would seem most helpful – foreign direct investment or FDI – is flawed and too crude to make any definite conclusions about the impact of offshoring. It just mixes up too many different elements of Wall Street and real estate markets. Others, like Thomas Friedman in *The World Is Flat* (2005), are somewhat celebratory about offshoring, though his more recent book with Michael Mandelbaum is much more sobering and almost a dirge – *That Used to Be Us* (2011).

The most frequent approach to structural unemployment is through skill mismatch. We cover this first in this book and then go on to the three larger issues mentioned below. In this area of mismatch, some very good works are going beyond blaming the victim. Peter Cappelli's book *Why Good People Can't Get Jobs* (2012a) takes an important step to reorient the skills mismatch toward employers who want skills but don't want to train employees. Works such as Arne Kalleberg's *Good Jobs, Bad Jobs* (2011), Harry Holzer and colleagues' *Where Are All the Good Jobs Going?* (2011), and Paul Osterman and Beth Shulman's *Good Jobs America*

(2001) provide an excellent picture of the lower and middle rungs of the job ladder. We build especially on some of Althauser and Kalleberg's work about segmented labor markets and trace how workers have flowed from higher to lower segments. In sum, we take a more jaundiced view toward skills mismatch than they do, but we also bring it together with the three structural forces of offshoring, technology and financialization.

We thank Jonathan Skerrett for asking us to give voice to a number of Americans suffering from structural unemployment, and for giving us feedback on the book throughout its development. We would also like to thank Lane Kenworthy from the University of Arizona for his input at the early stages of this project and coming to give one of the keynote talks at the University of Kentucky "Rising Inequalities Conference." The ideas for this project were in a paper in the National Science Foundation (NSF) report on "Rebuilding the Mosaic" by Thomas Janoski and Christopher Oliver. It was one of the 252 white papers in the NSF report, *SBE 2020: Future Research in the Social, Behavioral and Economic Sciences* (http://www.nsf.gov/pubs/2012/nsf11086/nsf11086pdf; webcast http://www.nsf.gov/news/news_summ.jsp?cntn_id=122464&org=NSF&from=news). Parts of this project were presented from 2011 to 2012 by Thomas Janoski at the University of Kentucky Sociology Colloquium, and by Thomas Janoski and David Luke at the organizations section of the American Sociological Association in Denver, the European Sociological Association conference on economic sociology in Moscow, and the Tennessee Employment Relations Association (TERRA) conference on the auto industry. We would like to thank Patricia Thornton at Duke University, Eric Richmond of the Federal Research Bank of Cleveland, William Canak of TERRA and Middle Tennessee State University, Darina Lepadatu of Kennesaw State University, Bruce Carruthers at Northwestern University, and Gerald Davis at the University of Michigan for their valuable comments. We especially thank three anonymous reviewers who provided especially helpful comments. Finally, we thank Patricia E. White and Jan Stets of the NSF for their help on "The Maturing of Lean Production" grant (NSF-ARRA 0940807) that provided the needed resources to do much of this project.

Contents

1
Introduction

To somewhat alter a phrase from Karl Marx and Friedrich Engels, "A specter is haunting advanced industrial countries and it is structural unemployment." In Europe, Spain and Greece are facing unemployment rates over 25 percent. The decline in jobs that comes and goes with the economic ups and downs of the business cycle – cyclical unemployment – is being supplanted by more permanent and disrupting unemployment that threatens the working and middle classes. A 2012 Pew survey of 1,297 Americans says that in the preceding fifteen years, the middle class had "shrunk in size, fallen backward in income and wealth, and shed some – but by no means all – of its characteristic faith in the future" (Pew, 2012:1). Michael Gibbs says that the American "middle class is on the verge of extinction" (2010:B8). The economic recovery after 2001 was unusually weak in providing employment, and since 2004, observers have been increasingly talking about "jobless recoveries"– when an economy experiences growth in GDP while employment stagnates. While the stock market has recovered from the "great recession" of 2008, employment has not. This collapse was considered to be cyclical by many, but much of this landslide of unemployment is clearly structural. The recovery of profits and corporate performance has not resurrected the job market.

Structural unemployment and futile job searches are common, and the most recent generation of young job seekers

is being called "the Recession Generation" or "Generation R." There are two versions of Generation R: underworked 20-somethings cannot get their first job and live at home, and overworked 20-somethings hang on to their jobs but have to do twice as much work because employers have cut their workforce to the bone (Schott, 2010; Godofsky et al., 2010; Newman, 1999, 2012). In response to these jobless recoveries, this book explains the four causes of structural unemployment and rising inequality, and then proposes policies to alleviate joblessness.

In our view, the four causes of structural unemployment and downward mobility are diverse and not commonly put together in the same breath. First, the most discussed features of unemployment come from "skill mismatches" caused by the shift from manufacturing to service jobs. Blue-collar skills are a poor fit with white-collar or service jobs. But there is more going on here than a simple need for retraining. Second, corporate offshoring in search of lower wages has moved large numbers of jobs to China, India, and other countries, and this has decimated manufacturing and some white-collar jobs. Offshoring requires massive amounts of direct foreign investment and a consulting industry that backs it up. It is especially caused by two corporate forms of lean production. Third, technology in the form of containerships, computers, and automation has replaced many jobs. The web has devastated jobs in newspapers, magazines, the postal service, and travel agencies. The internet also aids offshoring because it allows people to do information-intensive jobs from anywhere in the world. Automation and robotics reduce jobs on assembly lines throughout the world, and create only a few more jobs in designing and maintaining equipment. And although information technology also leads to new jobs, it does not produce enough jobs in the short term to balance the losses. Fourth, instability in global finance creates pressures for offshoring and makes recessions more frequent and longer. This intensifies the previous three factors by causing downturns that become structural as they increase the duration of unemployment. In sum, new jobs emerge in less-developed countries (LDCs), but these four forces destroy jobs in advanced industrialized countries with an instantaneous, worldwide system of communication.

Economic, Political Economy and Institutional Explanations

There are some differences between the way we use the term "structural unemployment" and the way economists generally use it. We take a macro-sociological approach based on a critical view of political economy. The strength of the economic approach is the creation of a tightly linked theory with a narrow focus on a limited number of variables. In a sense, most economic analyses of unemployment are generally limited to job vacancies, inflation, and economic growth, sometimes adding investment (especially when they move to explaining growth rather than jobs) (Daly et al., 2012; Acemoglu, 2009). The results seem to be tightly focused on mismatch – the first of our four explanations. While this explanation has some validity, sole reliance on it often leads to "blaming the victim" – it's the unemployed workers' fault that they have not retrained or chosen a better occupation. As a result, this approach has little to say about outsourcing, offshoring, ancillary technologies, and the detrimental effects of financialization on unemployment.[1]

Our wider view of structural unemployment builds on some of the mismatch analysis, but focuses more on the conflict between denationalized transnational corporations and employees in advanced industrialized countries (AICs). This is partially a class-conflict approach using elite or neo-Marxist theory with offshore-based profit taking, and an institutional or Weberian analysis of multination states struggling to maintain control of corporations and protect their citizens in a global economic environment. As one can see, the economic results of the last few decades have favored transnational corporations, with their high profits, and the upper classes getting a historically high proportion of income and especially wealth (Goldstein, 2012). Former middle-class citizens have suffered greater unemployment and then a downward shift to lower-paid jobs. In some ways a new social contract is in the initial stages of being forged, with the powerful transnational corporations having the upper hand at this point. This is why explanations that do not use a wider

lens – focusing on financialization, the declining middle class, growing inequality, and transnational corporations – are quite myopic. We will discuss economic studies that we believe show that a structural shift has occurred, but our explanations will be much broader than most of these analyses. For instance, in the aftermath of the recession of 2008, Daly et al. say that "a better understanding of the determinants of job creation in the aftermath of recession is crucial" (2012:24). Thus, our intent is to explain unemployment with three additional arguments involving a panorama of American workers in a new and complex division of labor.

In the next sections we discuss (1) the definitions, levels, and types of unemployment, with a focus on structural unemployment, including the Beveridge and Phillips curves, the duration of unemployment, and the stigma involved in current increases in the duration of unemployment; (2) the impact of unemployment on inequality, which starts with unemployment and leads to decreasing one's expectations of work to the lower-level segments of the labor market; and (3) the four factors that cause structural unemployment – the shift to service jobs and skill mismatches, outsourcing and offshoring, new technologies, and structural financialization – which is the main focus of this book; and we end with (4) our governmental policy recommendations to alleviate structural unemployment.

Definitions, Levels, and Types of Unemployment

Unemployment is generally defined as the number of persons who are ready and willing to work who cannot find a job. The unemployment rate consists of those persons who are unemployed divided by the total labor force, which includes the unemployed. It is important to note that if a person is not ready and willing to work, which means that they are not actively searching for a job, then that person is considered to be out of the labor force and is therefore *neither* employed *nor* unemployed. These "discouraged workers" are removed from the unemployment figures and the overall labor force.