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Dual Labor Markets: A Theory of Labor Market Segmentation

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DUAL LABOR MARKETS

A Theory of Labor Market Segmentation

By Michael Reich, David M. Gordon, and Richard C. Edwards*

A growing body of empirical research has documented persistent divisions among American workers: divisions by race, sex, educational credentials, industry grouping, and so forth (F. B. Weisskoff, B. Bluestone, S. Bowles and H. Gintis, D. Gordon, 1971 and 1972, B. Harrison, M. Reich, H. Wachtel and C. Betsey, and H. Zellner). These groups seem to operate in different *labor markets*, with different working conditions, different promotional opportunities, different wages, and different market institutions.

These continuing labor market divisions pose anomalies for neoclassical economists. Orthodox theory assumes that profit-maximizing employers evaluate workers in terms of their *individual* characteristics and predicts that labor market differences among groups will decline over time because of competitive mechanisms (K. Arrow). But by most measures, the labor market differences among groups have not been disappearing (R. Edwards, M. Reich, and T. Weisskopf, chs. 5, 7, 8). The continuing importance of *groups* in the labor market thus is neither explained nor predicted by orthodox theory.

Why is the labor force in general still so fragmented? Why are group characteristics repeatedly so important in the labor market? In this paper, we summarize an emerging radical theory of labor market segmentation; we develop the full arguments in Reich, Gordon, and Edwards. The theory argues that political and economic forces within American capitalism have given rise to and perpetuated segmented labor markets, and that it is incorrect to view the sources of segmented markets as exogenous to the economic system.

Present Labor Market Segmentation

We define labor market segmentation as the historical process whereby political-economic forces encourage the division of the labor market into separate submarkets, or segments, distinguished by different labor market characteristics and behavioral rules. Segmented labor markets are thus the outcome of a segmentation process. Segments may cut horizontally across the occupational hierarchy as well as vertically. We suggest that present labor market conditions can most usefully be understood as the outcome of four segmentation processes.

1. *Segmentation into Primary and Secondary Markets*

The primary and secondary segments, to use the terminology of dual labor market theory, are differentiated mainly by stability characteristics. Primary jobs require and develop stable working habits; skills are often acquired on the job; wages are relatively high; and job ladders exist. Secondary jobs do not require and often discourage stable working habits; wages

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are low; turnover is high; and job ladders are few. Secondary jobs are mainly (though not exclusively) filled by minority workers, women, and youth.

2. *Segmentation Within the Primary Sector*

Within the primary sector we see a segmentation between what we call "subordinate" and "independent" primary jobs. Subordinate primary jobs are routinized and encourage personality characteristics of dependability, discipline, responsiveness to rules and authority, and acceptance of a firm's goals. Both factory and office jobs are present in this segment. In contrast, independent primary jobs encourage and require creative, problem-solving, self-initiating characteristics and often have professional standards for work. Voluntary turnover is high and individual motivation and achievement are highly rewarded.

3. *Segmentation by Race*

While minority workers are present in secondary, subordinate primary and independent primary segments they often face distinct segments within those submarkets. Certain jobs are "race-typed," segregated by prejudice and by labor market institutions. Geographic separation plays an important role in maintaining divisions between race segments.

4. *Segmentation by Sex*

Certain jobs have generally been restricted to men; others to women. Wages in the female segment are usually lower than in comparable male jobs; female jobs often require and encourage a "serving mentality"—an orientation toward providing services to other people and particularly to men. These characteristics are encouraged by family and schooling institutions.

The Historical Origins of Labor Market Segmentation

The present divisions of the labor market are best understood from an historical analysis of their origins. We argue that segmentation arose during the transition from competitive to monopoly capitalism. Our historical analysis focuses on the era of monopoly capitalism, from roughly 1890 to the present, with special emphasis on the earlier transitional years.

During the preceding period of competitive capitalism, labor market developments pointed toward the progressive *homogenization* of the labor force, not toward segmentation. The factory system eliminated many skilled craft occupations, creating large pools of semiskilled jobs (N. Ware). Production for a mass market and increased mechanization forged standardized work requirements. Large establishments drew greater numbers of workers into common working environments.

The increasingly homogeneous and proletarian character of the work force generated tensions which were manifest in the tremendous upsurge in labor conflict that accompanied the emergence of monopoly capitalism: in railroads dating back to 1877, in steel before 1901 and again in 1919, in coal mining during and after the First World War, in textile mills throughout this period, and in countless other plants and industries around the country. The success of the Industrial Workers of the World (*IWW*), the emergence of a strong Socialist party, the general (as opposed to industry-specific) strikes in Seattle and New Orleans, the mass labor revolts in 1919 and 1920, and the increasingly national character of the labor movement throughout this period indicated a widespread and growing opposition to capitalist hegemony in general. More and more, strikes begun "simply" over wage issues often escalated to much more general issues (J. Brecher, J. Commons).

At the same time that the work force was becoming more homogeneous, those oligopolistic corporations that still dominate the economy today began to emerge and to consolidate their power. The captains of the new monopoly capitalist era, now released from short-run competitive pressures and in search of long-run stability, turned to the capture of strategic *control* over product and factor markets. Their new concerns were the creation and exploitation of monopolistic control, rather than the allocational calculus of short-run profit-maximization. (For examples see A. Chandler, B. Emmet and J. Jeuck, R. Hidy and M. Hidy, and A. Nevins.)

The new needs of monopoly capitalism for control were threatened by the consequences of homogenization and proletarianization of the work force. Evidence abounds that large corporations were painfully aware of the potentially revolutionary character of these movements. As Commons notes, the employers' "mass offensive" on unions between 1903 and 1908 was more of an ideological crusade than a matter of specific demands. The simultaneous formation of the National Civic Federation (*NCF*), a group dominated by large "progressive" capitalists, was another explicit manifestation of the fundamental crises facing the capitalist class (J. Weinstein). The historical analysis which follows suggests that to meet this threat employers actively and consciously fostered labor market segmentation in order to "divide and conquer" the labor force. Moreover, the efforts of monopolistic corporations to gain greater control of their product markets led to a dichotomization of the industrial structure which had the indirect and unintended, though not undesired, effect of reinforcing their conscious strategies. Thus labor market segmentation arose both from conscious strategies and systemic forces.[1]

Conscious Efforts

Monopoly capitalist corporations devised deliberate strategies to resolve the contradictions between the increased proletarianization of the work force and the growth and consolidation of concentrated corporate power. The central thrust of the new strategies was to break down the increasingly unified worker interests that grew out of the proletarianization of work and the concentration of workers in urban areas. As exhibited in several aspects of these large firms' operations, this effort aimed to divide the labor force into various segments so that the actual experiences of workers were different and the basis of their common opposition to capitalists undermined.[2]

The first element in the new strategy involved the internal relations of the firm. The tremendous growth in the size of monopoly capitalist work forces, along with the demise of craft-governed production, necessitated a change in the authority relations upon which control in the firm rested (R. Edwards). Efforts toward change in this area included Taylorism and Scientific Management, the establishment of personnel departments, experimentation with different organizational structures, the use of industrial psychologists, "human relations experts"

[1] We have paid more attention in this brief summary to employers' conscious efforts because the other papers presented in this session provide a complementary emphasis on systemic forces. We fully develop both explanations in Reich, Gordon, and Edwards.

[2] These efforts were "conscious" in the following sense. Capitalists faced immediate problems and events and devised strategies to meet them. Successful strategies survived and were copied. These efforts were not "conscious" in the sense that those who undertook them understood fully the historical forces acting upon them or all the ramifications of their policies. As we argue in the text, in certain cases capitalists acted out of a broader class consciousness.

and others to devise appropriate "motivating" incentives, and so forth (L. Baritz, A. Chandler, S. Marglin and F. Miller and M. Coghill). From this effort emerged the intensification of hierarchical control, particularly the "bureaucratic form" of modern corporations. In the steel industry, for example, a whole new system of stratified jobs was introduced shortly after the formation of U.S. Steel (K. Stone). The effect of bureaucratization was to establish a rigidly graded hierarchy of jobs and power by which "top-down" authority could be exercised.

The restructuring of the internal relations of the firm furthered labor market segmentation through the creation of segmented "internal labor markets." Job ladders were created, with definite "entry-level" jobs and patterns of promotion. White-collar workers entered the firm's work force and were promoted within it in different ways from the blue-collar production force. Workers not having the qualifications for particular entry-level jobs were excluded from access to that entire job ladder. In response, unions often sought to gain freedom from the arbitrary discretionary power of supervisors by demanding a seniority criterion for promotion. In such cases, the union essentially took over the management of the internal labor markets: they agreed to allocate workers and discipline recalcitrants, helping legitimize the internal market in return for a degree of control over its operation (P. Doeringer and M. Piore).

One such effort at internal control eventually resulted in segmentation by industry. Firms had initially attempted to raise the cost to workers of leaving individual companies (but not the cost of entering) by restricting certain benefits to continued employment in that company. Part of this strategy was "welfare capitalism" which emerged from the NCF in particular, and achieved most pronounced form in the advanced industries. At Ford, for example, education for the workers' children, credit, and other benefits were dependent on the workers' continued employment by the firm and therefore tied the worker more securely to the firm. For these workers, the loss of one's job meant a complete disruption in all aspects of the family's life. Likewise, seniority benefits were lost when workers switched companies (Weinstein). As industrial unions gained power, they transformed some of these firm-specific benefits to industry-wide privileges. The net effect was an intensification not only of internal segmentation, but also of segmentation by industry, which, as we discuss in the next section, had other origins as well.

At the same time that firms were segmenting their internal labor markets, similar efforts were under way with respect to the firm's external relations. Employers quite consciously exploited race, ethnic, and sex antagonisms in order to undercut unionism and break strikes. In numerous instances during the consolidation of monopoly capitalism, employers manipulated the mechanisms of labor supply in order to import blacks as strikebreakers, and racial hostility was stirred up to deflect class conflicts into race conflicts. For example, during the steel strike of 1919, one of the critical points in *U.S.* history, some 30,000 to 40,000 blacks were imported as strikebreakers in a matter of a few weeks. Employers also often transformed jobs into "female jobs" in order to render those jobs less susceptible to unionization (Brecher, D. Brody, Commons).

Employers also consciously manipulated ethnic antagonisms to achieve segmentation. Employers often hired groups from rival nationalities in the same plant or in different plants. During labor unrest the companies sent spies and rumor mongers to each camp, stirring up fears, hatred, and antagonisms of other groups. The strategy was most successful when many immigrant groups had little command of English (Brecher, Brody).

The manipulation of ethnic differences was, however, subject to two grave limitations as a tool in the strategy of "divide and conquer." First, increasing English literacy among immigrants allowed them to communicate more directly with each other; second, mass immigration ended in 1924. Corporations then looked to other segmentations of more lasting significance.

Employers also tried to weaken the union movement by favoring the conservative "business-oriented" craft unions against the newer "social-oriented" industrial unions. An ideology of corporate liberalism toward labor was articulated around the turn of the century in the *NCF*. Corporate liberalism recognized the potential gains of legitimizing some unions but not others; the *NCF* worked jointly with the craft-dominated American Federation of Labor to undermine the more militant industrial unions, the Socialist party, and the *IWW* (Weinstein).

As the period progressed, employers also turned to a relatively new divisive means, the use of educational "credentials." For the first time, educational credentials were used to *regularize* skill requirements for jobs. Employers played an active role in molding educational institutions to serve these channeling functions. The new requirements helped maintain the somewhat artificial distinctions between factory workers and those in routinized office jobs and helped generate some strong divisions within the office between semiskilled white-collar workers and their more highly skilled office mates (Bowles, Bowles and Gintis, Cohen and Lazerson and Edwards).

Systemic Forces

The rise of giant corporations and the emergence of a monopolistic core in the economy sharply accentuated some systemic market forces that stimulated and reinforced segmentation. As different firms and industries grew at different rates, a dichotomization of industrial structure developed (R. Averitt, T. Vietorisz and B. Harrison, and J. O'Connor). The larger, more capital-intensive firms were generally sheltered by barriers to entry, enjoyed technological, market power, and financial economies of scale and generated higher rates of profit and growth than their smaller, labor-intensive competitive counterparts. However, it did not turn out that the monopolistic core firms were wholly to swallow up the competitive periphery firms.

Given their large capital investments, the large monopolistic corporations required stable market demand and stable planning horizons in order to insure that their investments would not go unutilized (J. K. Galbraith). Where demand was cyclical, seasonal, or otherwise unstable, production within the monopolistic environment became increasingly unsuitable. More and more, production of certain products was subcontracted or "exported" to small, more competitive and less capital-intensive firms on the industrial periphery.

Along with the dualism in the industrial structure, there developed a corresponding dualism of working environments, wages, and mobility patterns. Monopoly corporations, with more stable production and sales, developed job structures and internal relations reflecting that stability. For example, the bureaucratization of work rewarded and elicited stable work habits in employees. In peripheral firms, where product demand was unstable, jobs and workers tended to be marked also by instability. The result was the dichotomization of the urban labor market into "primary" and "secondary" sectors, as the dual labor market theory has proposed (Gordon, 1972, Piore).

In addition, certain systemic forces intensified segmentation within corporations in the primary sector. As Piore has argued, the evolution of technology within primary work places tended to promote distinctions between jobs requiring general and specific skills. As new technologies emerged which replicated these differential skill requirements, employers found that they could most easily train for particular jobs those workers who had already developed those different kinds of skills. As highly technical jobs evolved in which the application of generalized, problem-solving techniques were required, for instance, employers found that they could get the most out of those who had already developed those traits. Initial differences in productive capacities were inevitably reinforced.

The Social Functions of Labor Market Segmentation

As the preceding historical analysis has argued, labor market segmentation is intimately related to the dynamics of monopoly capitalism. Understanding its origins, we are now in a position to assess its social importance.

Labor market segmentation arose and is perpetuated because it is *functional*—that is, it facilitates the operation of capitalist institutions. Segmentation is functional primarily because it helps reproduce capitalist hegemony. First, as the historical analysis makes quite clear, segmentation divides workers and forestalls potential movements uniting all workers against employers. (For an interesting analysis, see C. Kerr and A. Siegel). Second, segmentation establishes "fire trails" across vertical job ladders and, to the extent that workers perceive separate segments with different criteria for access, workers limit their own aspirations for mobility. Less pressure is then placed on other social institutions—the schools and the family, for example—that reproduce the class structure. Third, division of workers into segments legitimizes inequalities in authority and control between superiors and subordinates. For example, institutional sexism and racism reinforce the industrial authority of white male foremen.

Political Implications

One of the principal barriers to united anticapitalist opposition among workers has been the evolution and persistence of labor market segmentation. This segmentation underlies the current state of variegation in class consciousness among different groups of workers. A better understanding of the endogenous sources of uneven levels of consciousness helps to explain the difficulties involved in overcoming divisions among workers. Nonetheless, if we more clearly understand the sources of our divisions, we may be able to see more clearly how to overcome them.

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