

Rising Tides, Leaky Boats: The Influence of Downsizing on Wage Levels

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Introduction

Contrary to the post-war faith in unending progress, over the last two decades the quality of life of most Australians has been falling. In these decades the world economy has undergone a dramatic transformation, through the phenomenon often called globalisation. Flat or falling wages have been compounded by the ever present spectre of lay-offs and "organisational downsizing".

This paper will address the phenomenon of organisational "downsizing", analysing the effects the process has had on both wage levels and employment at societal and workplace levels. The motivators for organisations reducing their workforce levels will be examined, juxtaposed against the increasing integration of physical, financial and services markets across the globe manifest in the process of "globalisation". It will be argued that the social, economic, political and institutional context underpinning employment and wage determination has altered significantly primarily driven by globalisation which has engendered organisational downsizing. These changes have influenced unemployment, labour market demographics, deregulation of the labour market and the waning influence of trade unions which has assisted employers in establishing political pressure for unions and employees to accept deficits in their terms of employment resulting from their diminished position to bargain or to resist through resigning. This has led to restrained, and even falling, real wages that have thus perpetuated economic and labour market trends, enabling organisations to pursue downsizing and reduction in labour costs.

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The effect of downsizing on the organisation will also be explored focussing on whether downsizing has achieved the generic organisational goals of greater efficiency and productivity and the impact this has had on redundant employees. Finally, the social ramifications of unemployment and the similarly pestiferous shift to lower paying jobs will be discussed exploring the significant emotional and psychological impact of unemployment. It will be posited that downsizing is deleterious to the individual, organisation and community.

Rising tides, leaky boats

During the boom of the early 1960s, United States President John F. Kennedy asserted, "a rising tide lifts all boats".¹ For a few golden decades after World War II, the burgeoning economy did lift the standard of living for the greater Western society. But today's rising tide is lifting only some of the boats, primarily the yachts.² Real wages in Australia have been virtually stagnant since the early 1980s, and to earn their pay employees have had to work longer and harder.³ Flat or falling wages have been compounded by the ever present spectre of "organisational downsizing". Once, it was a mark of shame to fire your workers *en masse* and corporations reduced their workforces only when they were in trouble, but now profitable companies are laying off employees, at a time of increasing sales, in an endless quest for ever fatter profits and ever higher stock prices.⁴ This trend has seen downsizing become the corporate touchstone of the 1990s.⁵

Perhaps the most striking economic trend of the 1990s has been the fact that as profits rose and stock prices set repeated records, the pace at which lay-offs and downsizings are announced has continued unabated.⁶

¹ Remarks in Pueblo, Colorado, August 17, 1962, Public Papers of the Presidents, 1962:626

² E. M. Kennedy (1996) *The Rising Tide Must Lift More Boats*, Address to the Centre for National Policy, <http://www.access.digex.net/~cnp/kennedy.html>.

³ C. Hamilton (1997) "Workers in the Globalised World", *Australian Quarterly*, 69(2): 29.

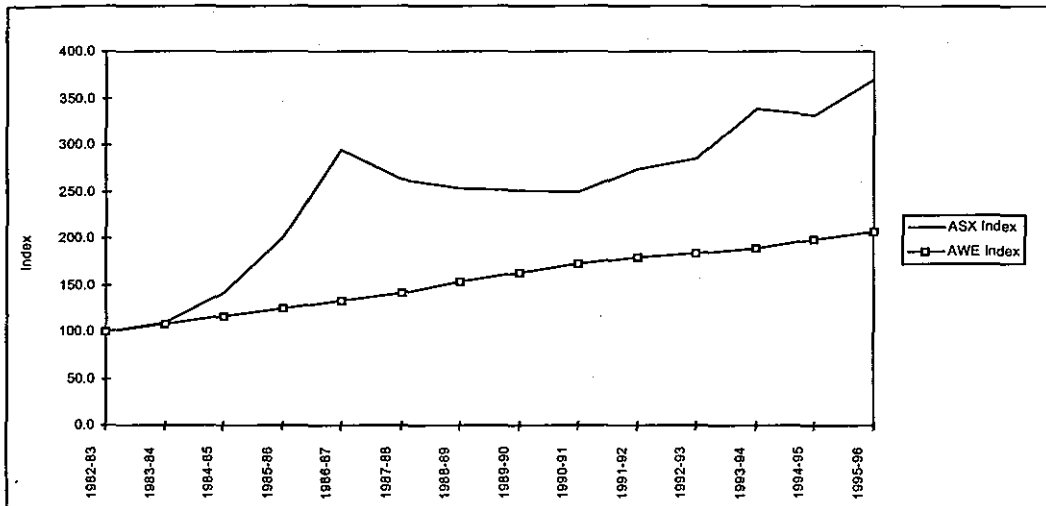
⁴ E.M. Kennedy (1996), op. cit., p.2; K. Donaher (1996) "Introduction: Corporate Power and the Quality of Life", in K. Donaher (ed.), *Corporations Are Gonna Get Your Mama*, Common Courage Press, Maine, p.20.

⁵ See Wall Street Journal, 16 March 1994 in P.M. Lee, (1997) "A Comparative Analysis of Layoff Announcements and Stock Price Reactions in the United States and Japan", *Strategic Management Journal*, 18: 879.

⁶ R. Gephardt and D.Obey (1997) *Downsizing the American Dream*, Staff Report of the House Democratic Policy Committee, <http://www.house.gov/democrats/research/downsize.html>; also see Figure 1.

Instead of having a rising tide continuing to lift all boats, we have witnessed low paying jobs replacing better paying jobs, wages stagnating, and unemployment increasing. This has all occurred at a rate that has outpaced other periods of stronger growth.⁷

Figure 1: Average Weekly Earnings & Australian Stock Exchange All Ordinaries Index (1982-83 = 100)



Source: Bramble, 1997.

This paper will address the phenomenon of organisational “downsizing” through labour reductions. It will look to the effects downsizing has had on both wage levels and employment at societal and workplace levels, using Australia as one model and drawing on evidence from other Anglophone countries. Downsizing will be defined followed by a consideration of the motivators for reducing workforce levels. This will be juxtaposed against globalisation driven changes in the labour market and economy. It will be argued that economic and political changes have engendered organisational downsizing, which has led to increased unemployment levels accompanied by restrained, and even falling, real wages which have thus perpetuated economic and labour market trends. The effect of downsizing on the organisation will also be explored focussing on the dual generic organisational goals of greater efficiency and productivity, against the impact the process has had on redundant employees.

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D. Obey (1997) *Who's Downsizing the American Dream?*, Speech at Centre for National Policy Breakfast, <http://www.access.digex.net/~cnp/obey1.html>.

Honey, I shrunk the company

[N]ever before in the history of mankind have the feelings of the street had such decisive force, the ancients worried about the moods of the skies, mountains, seas and forests, we are just placketing [sic] a pavement, we are only worshipping Wall Street.⁸

Downsizing is a term which has arisen out of managerial and media usage leading to definitional issues as it is often used incorrectly to refer to a mere loss of a number of employees from the workplace. Cameron et. al., attempt to limit the meaning of downsizing to a form of intentional workforce reduction aimed at improving efficiency that affects work processes, either intentionally or unintentionally.⁹ In this interpretation downsizing is distinct from organisational decline which may be unintentional and may not involve decline in personnel but focus rather on capital reduction. However, the term does have a broader meaning than simply laying-off employees.¹⁰ Dunford and Heiler argue that downsizing is a generic term used to refer to a "substantial reorganisation of the workforce" based on a reduction in employee numbers.¹¹ Similarly Cascio defines the term as "the planned elimination of positions or jobs".¹² This definition of downsizing as a strategic reduction in workforce levels, allows the term to encompass periods of both decline, and growth, in that it is not confined to recession-driven responses. Indeed, to an increasing extent downsizing is often a pre-emptive restructuring strategy disassociated from the business cycle, with the intent of achieving a new organisational structure and improving the competitive position of the organisation.¹³

The extent of downsizing

Over the last decade, many Australian employees have experienced the phenomenon of ongoing retrenchment, with employees being turned-over frequently as part of normal operations. Littler et. al., (1997) survey on downsizing indicated that extensive levels of restructuring had occurred in Australia since 1990, both during the economic downturn

⁸ Robert Reich in H.P. Martin (1997) "The Global Trap", *The Global Trap: Conference Archive*, <http://conference.socialchange.net.au/globaltrap/conference/martin.html>.

⁹ Cameron et. al., 1993:25 in C.R. Littler, R. Dunford, T. Bramble and A. Hede (1997) "The Dynamics of Downsizing in Australia and New Zealand", *Asia Pacific Journal of Human Resources*, 35(1).

¹⁰ C.R. Littler et. al., (1997), op. cit.

¹¹ R. Dunford and K. Heiler (1994) "Corporate Restructuring Through "Delaying" and "Downsizing": Some Preliminary Findings", in R. Callus and M. Schumacher (eds), *Current Research in Industrial Relations*, Proceedings of the 8th AIRAANZ Conference, 1, p.440.

¹² Cascio, 1993 in C.R. Littler et. al., (1994), op. cit., p.3.

¹³ R. Dunford and K. Heiler (1994), op. cit., p.441; C.R. Littler et. al., (1997), op. cit., p.66.

and the upswing¹⁴ with employees continuing to be retrenched even during relatively buoyant economic conditions.¹⁵ The data showed that 57 percent of Australian organisations downsized between 1993 and 1995 with 44 percent of downsizing organisations having downsized three or more times and 71 percent downsizing twice or more.¹⁶

Post 1990, during a period of job contraction, there was a marked increase in downsizing efforts with some 560,000 people in 1990-91 and 547,500 in 1991-92 citing retrenchment as a reason for unemployment. As growth resumed the numbers fell back to 464,300 in 1993-94, which was still notably higher than the late 1980s.¹⁷ Even during periods of job expansion, retrenchment appears to be part of the experience in nearly one in every twenty workers.¹⁸ In sum, the Australian Bureau of Statistics (ABS) estimates that close to 3.3 million people, or one in two full-time workers have been retrenched since 1986.¹⁹

Downsizing, therefore, appears to be a heterogenous phenomenon, with a stable underlying base enduring for most periods, buttressed by new categories of employees being downsized in periods of contraction. The process is often firmly anchored in an industry context, marked by distinctive patterns of enterprise and labour turnover.²⁰ Industry bands which are seen to have downsized heavily include agriculture, mining, manufacturing, construction, transport, entertainment, recreation and personal services, and health, education and community services.²¹ During periods of job contraction, retrenchment levels appear to rise due to increased retrenchments in wholesale and retail trade, construction, manufacturing, and finance, property and business services.²²

¹⁴ C.R. Littler et. al., (1997), op. cit., p.76.

¹⁵ M. Webber and I. Campbell (1997) *Labour Market Outcomes Among Retrenched Workers in Australia: A Review*, Working Paper 44, National Key Centre in Industrial Relations, Monash University, p.1.

¹⁶ C.R. Littler et. al., (1997), op. cit., p.68.

¹⁷ I. Campbell and M. Webber (1996) "Retrenchment and Labour Market Flows in Australia", *Economic and Labour Relations Review*, 7(1): 99.

¹⁸ M. Webber and I. Campbell (1997), op. cit., p.1.

¹⁹ P. Cleary (1997) "How the axe fell on 3.3m", *The Sydney Morning Herald*, Monday 20 October, p.1.

²⁰ I. Campbell and M. Webber (1996), op. cit., p.94.

²¹ T. Bramble and C. Littler (1996) "Labour-use Strategies in the Context of Recession: Provisional evidence from 1990-93", in R. Fells and T. Todd (eds), *Current Research in Industrial Relations*, Proceedings of the 10th AIRAANZ Conference, February, p.65.

²² I. Campbell and M. Webber (1996), op. cit., p.101.

Australia is not alone in this choice of policy, with downsizing being experienced across Northern America, Europe and Asia. Between 69 percent and 98 percent of companies had undertaken downsizing, cost reduction or restructuring in these regions since 1988, indicating the global nature of the process.²³

Motivators for downsizing

This has been a difficult time for me. Laying off those three thousand workers was the hardest decision I've had to make in thirty years of business ... But I have to put my personal feelings aside. As CEO I have a duty to do what's best for the shareholders.²⁴

Companies suggest that the major reasons underlying their decisions to downsize are either financial motivators concerned with increasing the organisation's share value, or organisational drivers or combinations of both.²⁵ An organisation's "competitive edge" "seems to reside in the capacity to provide cheap labour"²⁶ and the principal device which corporate managers have developed to sustain "earnings momentum" and the interest of the stock market has been cost savings, specifically achieved through downsizings and layoffs.²⁷ Product market fluctuations in demand and the business cycle have also been cited as reasons for the recent trend towards "downsizing" and re-organisation which have highlighted employers' emphasis on numerical flexibility, through reducing employee numbers to meet perceived organisational needs.²⁸

Anecdotally, major downsizings have resulted in positive stock market effects.²⁹ This appears to have generated a faddism about downsizing that is engendered by the socially determined responses of stock market which tend to look favourably on companies which

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- ²³ C.R. Littler, T. Bramble and J. McDonald (1994) *Organisational Restructuring: Downsizing, Delayering and Managing Change at Work*, AGPS, Canberra, p.3.
- ²⁴ Freeman and Gilbert (1988), p.24 in D.L. Worrell, W.N. Davidson, and V.M. Sharma (1991) "Layoff Announcements and Stockholder Wealth", *Academy of Management Journal*, 34(3): 662.
- ²⁵ C.R. Littler et. al., (1994), op. cit., p.5.
- ²⁶ T. Keenoy and M. Noon (1992) "Employment Relations in the Enterprise Culture: Themes and Issues", *Journal of Management Studies*, 29(5): 562.
- ²⁷ R. Gephardt and D. Obey (1997), op. cit.
- ²⁸ A. Morehead, M. Steele, M. Alexander, K. Stephen, and L. Duffin, (1997) *Changes at Work: The 1995 Australian Workplace Industrial Relations Survey*, Addison Wesley Longman Australia Pty Limited, South Melbourne, pp.75-77.
- ²⁹ P.M. Lee (1997), op. cit., p.882; J. Dial and K.J. Murphy (1995) "Incentives, downsizing, and value creation at General Dynamics", *Journal of Financial Economics*, 37.

take strong measures to cut staff numbers.³⁰ Investors seem to read downsizing announcements as signals that an organisation is serious about fighting diminished financial performance.³¹ Such stockholder zeal appears to have transformed corporate culture. McKinley argues that downsizing is now necessary to "maintain legitimacy in the eyes of important corporate stock holders."³² Increasingly downsizing is being used as a form of corporate signalling, impression management, or institutional mimetic isomorphism, that is, as a common way of cutting down costs, improving efficiency, and proactively responding to the environment.³³ This indicates that downsizing may be perceived as nothing more than the achievement of industry conformity through imitation. This synthesis has often been thought of as a contagion process driven by the kind of social-constructionist role-following that March has termed "obligatory action".³⁴ Similarly, this change in attitude has also been accompanied by positive media portrayal, and reconstruction of the language, from the negative connotations of downsizing to "rightsizings," supporting the notion that layoffs may have become "institutionalised" as a popular method for coping with the competitive environment.³⁵

Internal organisational motivators, on the other hand, which managers cite as reasons for downsizing include the need to reduce overhead and bureaucratic layers, to speed up decision-making processes, to enhance internal communications, to foster entrepreneurships, to increase productivity or indicate a change in direction.³⁶ Results from the Australian Workplace Industrial Relations Survey (AWIRS) 95 study, similarly, showed that the 40 percent of changes most likely to reduce the total number of employees resulted from reorganisation of the workplace structure, and 27 percent from changes to how non-managerial employees did their work. However in private workplaces, the most prevalent reason was a lack of demand, 37 percent, followed by restructuring, 32 percent.³⁷

Gilson and Wagar (1994) found that the decision to downsize was, therefore, typically a response to some type of change such as declining sales, a merger, recessionary economic conditions, increased global competition, the implementation of labour-displacing new

³⁰ C.R. Littler et. al., (1994), op. cit., p.5.

³¹ D.L. Worrell et. al., (1991), op. cit., p.673.

³² McKinley in S. Galpern (1995) *Downsizing the American Dream; The Income Gap Widens*, <http://www.cudenver.edu/~ldeleon/pad5220/resources/papers/dream.html>.

³³ P.M. Lee (1997), op. cit., p.885.

³⁴ March, 1981:221-226 in Haveman, 1993:595.

³⁵ P.M. Lee (1997), op. cit., p.891-2.

³⁶ C.R. Littler et. al., (1994), op. cit., p.5.

³⁷ A. Morehead (1997), op. cit.

technologies, industry deregulation, or internal corporate restructuring.³⁸ When managers were asked why employment levels were reduced, only two percent of workplaces reported that wage levels were the major cause of workforce reductions, nevertheless, wages and employees are eventually the main casualties.³⁹

This leads to examination concerning the motivation for the focus on costs and organisational restructuring, intended to make firms more competitive and individual workplaces more efficient and productive.⁴⁰ What economic, social and political factors have led to organisations downsizing and cutting labour costs? The exposure of the economy to international competition, accompanied by the subsequent political and labour market responses, appears to be the major influence.

Globalisation: the rising tide

Contrary to the post-war faith in unending progress, over the last two decades the quality of life of most Australians has been falling. In these decades the world economy has undergone a dramatic transformation, through the phenomenon often referred to as "globalisation".⁴¹ The concept of globalisation describes the increasing integration of physical, financial and services markets across the globe leading to the growing economic interdependence of countries, which manifests itself most obviously in the internationalisation and liberalisation of trade and production, the increasing volume and variety of cross-border transactions in goods and services, the more rapid and widespread diffusion of technology, in investment and capital flows with the consequent growing importance of these flows, and in international competition in the world economy.⁴²

³⁸ C.H.J. Gilson and T.H. Wagar (1994) "Factors Affecting Workforce Reduction In Unionised Workplaces", *Australian Bulletin of Labour*, 20(2), p.130.

³⁹ Ibid.

⁴⁰ J. Buchanan and R. Callus (1993) "Efficiency and Equity at Work: The Need for Labour Market Regulation in Australia", *Journal of Industrial Relations*, 35(4): 515.

⁴¹ C. Hamilton (1997), *op. cit.*, p.25.

⁴² P. Gollan, R. Pickersgill and G. Sullivan (1996) "Future of Work: Likely Long Term Development in the Restructuring of Australian Industrial Relations", *Working Paper 43*, ACIRRT, University of Sydney, pp.10-11; ILO (1996), p.1 in I. Campbell, and J. Burgess (1997) *National Patterns of Temporary Employment: The Distinctive Case of Casual Employment in Australia*, Working Paper 53, National Key Centre in Industrial Relations, Monash University, pp.40-41; IMF (1997), p.45 in A. Breitenfellner (1997) "Global Unionism: A potential player", *International Labour Review*, 136(4), p.533; R. Hall and B. Harley (1995) "The Australian Response to Globalisation: Domestic Labour Market Policy and the Case of Enterprise Bargaining", in Gollan, P (ed.), *Globalisation and its Impact on the World of Work*, ACIRRT Working Paper 38, University of Sydney, November, pp.71-96.

At the national level, globalisation has been associated with the freeing up of trade and economic strictures and the lowering of tariff and non-tariff trade barriers to international trade, the encouragement of foreign investment, and the deregulation of financial markets.⁴³ Simultaneously, the rapid development of technology has magnified the effects of economic liberalisation by reducing the costs of transportation and communications, hence expanding the scope of goods and services that are internationally tradeable,⁴⁴ consequently making multi-national corporations more powerful.⁴⁵ The exposure of Australia's once well protected economy to this internationally competitive environment has had a profound impact.

Globalisation has been underpinned by a radical shift towards neo-classical economic policies⁴⁶ which suggest that national governments should disassemble protective regulation and emancipate individual enterprises to respond to the new competitive pressures.⁴⁷ In Australia this push has been met by government attempts to promote improved efficiency, trade and greater competition through deregulation of capital, product and labour markets.

Consequently, at the industry level, the ability of employers to use their position, in largely sheltered markets, to either absorb wage and conditions improvements through increasing sales, or by shifting the costs to consumers through price increases has been dramatically reduced.⁴⁸ The manufacturing sector has had to compete, either with the low wages of the newly industrialising countries, or with the high technology of western competitors. Those operating in the high technology market have been forced to enhance the productivity and skills of their workforce, often by reducing absolute numbers.⁴⁹ At the very least, labour replacing technology has put downward pressure on wages for the unskilled, such that the unskilled have become either unemployed, or very poorly paid.⁵⁰ These changes have all aggregated to place wages and working conditions under constant threat from "high unemployment rates, internationally mobile capital, state deregulation policies, attacks

⁴³ E. Lee (1996) "Globalization and employment: Is the anxiety justified?," *International Labour Review*, 135(5), p.485.

⁴⁴ *Ibid.*

⁴⁵ A. Breitenfellner (1997), *op. cit.*, p.531.

⁴⁶ *Ibid.*, p.533.

⁴⁷ I. Campbell, and J. Burgess (1997), *op. cit.*, pp.40-41.

⁴⁸ S.J. Deery and D.H. Plowman (1991) *Australian Industrial Relations*, (3rd ed.), McGraw-Hill Book Company, Sydney, p.172.

⁴⁹ P. Gollan et. al., (1996), *op. cit.*, p.11.

⁵⁰ *Ibid.*, p.13.

from employers and the ideological imperative of labour flexibility.⁵¹ All of these factors have led to the nexus between work, income and minimum living standards being systematically eroded.

The change of tide

Labour market change

Over the past decade or more Australia has been undergoing a fundamental and perhaps irreversible change driven by globalisation evidenced by an emerging modernistic economic, social, political and industrial landscape⁵² which has significantly altered the institutional context underpinning employment and wage determination. These changes influence labour market demographics, deregulation of the labour market, increasing power of employers and the waning influence of trade unions, all of which have enabled organisations to pursue downsizing and reduction in labour costs. This restructuring of the employment system has been associated with a net distribution of income from labour to capital, and a subsequent decline in real wages, and an intensification of income, wage and wealth polarisation.⁵³

Over the past 25 years, Australian has experienced strong growth in the labour force. The changing composition of this expanded labour force has seen the dramatic rise of women obtaining paid employment, albeit much of it part time; the delay in entry of young people into the formal, full time labour market due to more students pursuing secondary and tertiary education, and an increasing rate of early retirement of older males.⁵⁴ Accompanying these demographic changes has been a trend toward a two-tiered labour market, with the gap widening between well paid, high status "core" employees and a growing "periphery" of low paid, insecure part-time and casual employees.⁵⁵ Relative growth appears to have been fastest in non-standard forms of employment⁵⁶ with the proportion of the employed labour force in standard employment in Australia falling from 66 percent to 56.2 percent over the period from 1982 to 1995.⁵⁷

⁵¹ J. Burgess (1994) "Restructuring the Australian Labour Force: From Full Employment to Where?", *Journal of Australian Political Economy*, 34: 104.

⁵² B. Brooks (1992) *Contract of Employment*, (4th ed.), CCH, Sydney, p.314.

⁵³ J. Burgess (1994), *op. cit.*, p.118.

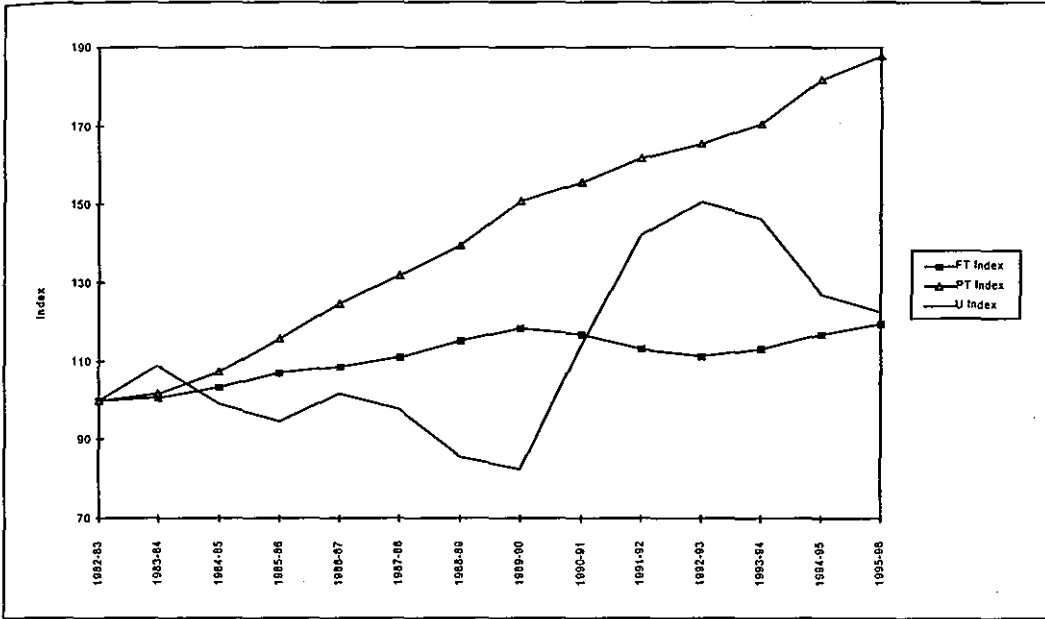
⁵⁴ P. Gollan et. al., (1996), *op. cit.*, p.12.

⁵⁵ R. Green (1996) "Reconnecting with the workplace: How Labor can win again", *Australian Quarterly*, 68(4): 80.

⁵⁶ OECD (1994), p.9 in I. Campbell and M. Webber (1996), *op. cit.*, p.91.

⁵⁷ See Figure 2; ABS at 6310.0; I. Campbell and M. Webber (1996), *op. cit.*, p.91.

Figure 2: Indices of Full-Time and Part-Time Employment & Unemployment, 1982-83 to 1995-96 (1982-83 = 100)



Source: Bramble, 1997.

The OECD's 1994 *Jobs Study* reveals that among most Western nations Australia has the second highest rate of temporary employment, and the fifth highest rate of part-time employment.⁵⁸ Casual employment has expanded steadily and steeply since the early 1980s. The number of employees who were casual in their main job more than doubled in the period 1982 to 1996 increasing from around 13.3 percent to 26.1 percent of all employees over this period⁵⁹ with almost one in very four employees (24 percent) being employed as casuals in their main job in 1995.⁶⁰

Such non-standard employment has come to be termed "precarious" employment because it is a form of employment deprived of most standard benefits, rights and forms of protection.⁶¹ Entitlements which casual employees don't enjoy include annual leave and

⁵⁸ P. Cleary (1997), *op. cit.*, p.1.

⁵⁹ I. Campbell, and J. Burgess (1997), *op. cit.*, p.5.

⁶⁰ I. Campbell (1996) "Casual Employment, Labour Regulation and Australian Trade Unions", *Journal of Industrial Relations*, 38(4): 574.

⁶¹ P. Brosnan (1996) "Labour Markets and Social Deprivation", *Labour & Industry*, 7(2): 1. Campbell, and J. Burgess (1997), *op. cit.*

sick leave, and access to numerous other benefits such as training. These employees generally experience shorter periods of elapsed job tenure, indicating that they are more exposed to employment insecurity. They also appear to encounter lower earnings than those of equivalent permanent employees, and tend to be strongly affected by income insecurity as a result of the irregularity of the earnings.⁶²

Simultaneously, substantial numbers of working people have been unable to earn any living at all. Low economic growth and high unemployment rates have persisted, with unemployment rising from an average rate of less than two percent in the 1960s to nine percent in the last 10 years⁶³ climbing to a peak of 11 percent in 1993.⁶⁴ Meanwhile the increasing female workforce, characteristically part-time and casual, with low union densities, has expanded alongside a relatively contracting male, unionised and full-time workforce. Thus the weakening of labour market standards and institutions that empower employees have ultimately contributed to stagnation of wage levels.⁶⁵ Hamilton believes that this increasing uncertainty is "changing the commitment of employees to their jobs, their employers and their careers."⁶⁶

Rising management prerogative

This climate of globalisation, declining economic conditions, labour market change and relatively high unemployment has accordingly provided employers with pressure to continue with and then raise profitability, enabling them to strengthen their position relative to labour. Employers have been given the incentive and the opportunity to reduce unit labour costs, restructure their organisations, and shape industrial relations⁶⁷ with globalisation figuring prominently in the argument that seeks to provide a blanket rationalisation for current employer demands and employer-initiated changes at the workplace. A variety of demands for changes in wages and conditions have been reasoned as necessary responses to the imperatives of the globalised economy.⁶⁸ Their responses to the increasingly competitive markets have been to develop new business and labour-use

⁶² I. Campbell, and J. Burgess (1997), *op. cit.*, p.34.

⁶³ C. Hamilton (1997), *op. cit.*, p.29.

⁶⁴ H. Lydall (1995) "A Strategy for Full Employment", *Business Council Bulletin*, 119.

⁶⁵ L. Mishel (1995) "Rising Tides, Sinking Wages", *The American Prospect*, 23, <http://epn.org/prospect/23/23mish.html>.

⁶⁶ C. Hamilton (1997), *op. cit.*, p.29.

⁶⁷ S. J. Frenkel (1990) "Industrial Relations in Eight Advanced Societies: A Comparative Overview", *Bulletin of Comparative Labour Relations*, Bulletin 20: 214.

⁶⁸ I. Campbell, and J. Burgess (1997), *op. cit.*, pp.40-41.

strategies encompassing the trend in both private and public sector organisations to undertake a series of steps to restructure their workforces in line with a cost-cutting imperative,⁶⁹ thus breaking-down standard employment.⁷⁰

Responding to the environment, employers have placed a greater emphasis upon improving labour flexibility as a means of increasing productivity⁷¹ and have been politically more active in directly lobbying governments and in directly agitating for labour market deregulation through neo-liberal policies. Such policies have been used as a platform for employers to degrade the wages and conditions of the standard jobs offered, with the comparative efficacy of regulatory bodies such as the industrial relation commission and trade unions being enfeebled. Correspondingly, the focus of employment relations has shifted to the enterprise, where the increased freedom and capacity of employers to alter and restructure employment is pursued, which helps to direct the pressure for economic adjustment towards labour adjustment.⁷² Where successful, this degradation has meant increased precariousness for employees in fundamental dimensions such as low pay, benefits insecurity, employment insecurity and working-time insecurity. Continued pursuance of such a policy can also mean a downward spiral of wage competition that threatens to extend this precariousness through broad sections of the workforce.⁷³

This trend is particularly evident during the late 1980s and early 1990s during which time employers sought changes in the systems governing industrial relations to yield "labour flexibility; strategies that encompass more flexible work patterns and working-time arrangements, including part-time casual and contracted workers".⁷⁴ Burgess believes the resultant insecure work-forms have developed as a means of circumventing traditional regulations and entitlements associated with regulated full-time wage adjustment.⁷⁵ Phillip Mattera writes:

⁶⁹ T. Bramble and C. Littler (1996), *op. cit.*, p.62.

⁷⁰ J. Burgess and I. Campbell (1998), "The Nature and Dimensions of Precarious Employment in Australia", *Labour & Industry*, 8(3): 16.

⁷¹ C. Wright (1995), *The Management of Labour: A History of Australian Employers*, Oxford University Press, Auckland, p.201; Harley, B. (1995), *Labour Flexibility and Workplace Industrial Relations: The Australian Evidence*, ACIRRT Monograph 12, University of Sydney.

⁷² I. Campbell and M. Webber (1996), *op. cit.*, p.95.

⁷³ J. Burgess and I. Campbell (1998), *op. cit.*, p.16.

⁷⁴ J. Burgess (1994), *op. cit.*, p.120.

⁷⁵ *Ibid.*, p.118.

it is the employer's quest for flexibility that dominates today's contingent labor, not the employee's. Whatever the worker can obtain in limited hours, short-term jobs and work at home is purchased at a scandalously high price.⁷⁶

According to this conceptualisation, employers have engaged in a deliberate attempt to create a core workforce, enjoying stable employment, and a periphery, populated by employees in non-standard forms of employment.⁷⁷

Ebbing trade union strength

Comparatively, economic and structural factors have reduced the power of unions over the past decade. In the immediate post-war decades, the trade union movement, both in Australia and abroad, played a vital role in improving the economic and social conditions of a large proportion of employees.⁷⁸ Whilst it was possible to claim that Australian unions managed to "swim against the tide" for the majority of this period, the decline in union density in recent years has been dramatic and substantial.⁷⁹ Union membership has fallen from over half of the paid workforce in the 1950s and 1960s to a third in recent times.⁸⁰ Economic forces have come to dominate industrial relations by structuring the terms of political exchange between unions and the state. The weakness of the union movement at the workplace level has seen industrial relations become dominated by the resurgence in management prerogative over the last decade.⁸¹ The persistence of high unemployment and global economic pressures has assisted employers in establishing political pressure for unions and employees to accept deficits in their terms of employment because employees are in a diminished position to bargain or to resist through resigning, especially as their prospects of similar employment have been less than favourable.

Employees and their unions have therefore become increasingly susceptible to competitive pressures and enhanced management prerogative. As Wright maintains, trade unions have generally failed to challenge employers in this area, accepting redundancies as undesirable, but inevitable features of restructuring and productivity improvement.⁸² Employers have focussed closely on continued reductions in workforce size, increases in contingent

⁷⁶ D.M. Gordon (1996), *Fat and Mean: the corporate squeeze of working Americans and the myth of managerial downsizing*, The Free Press, New York, p.230.

⁷⁷ T. Bramble and C. Littler (1996), *op. cit.*, p.62.

⁷⁸ C. Hamilton (1997), *op. cit.*, p.30.

⁷⁹ A. Morehead (1997), *op. cit.*, p.141.

⁸⁰ See G. Griffin and S. Svensen (1996), "The Decline of Australian Union Density: A Survey of the Literature", *Journal of Industrial Relations*, 38(4).

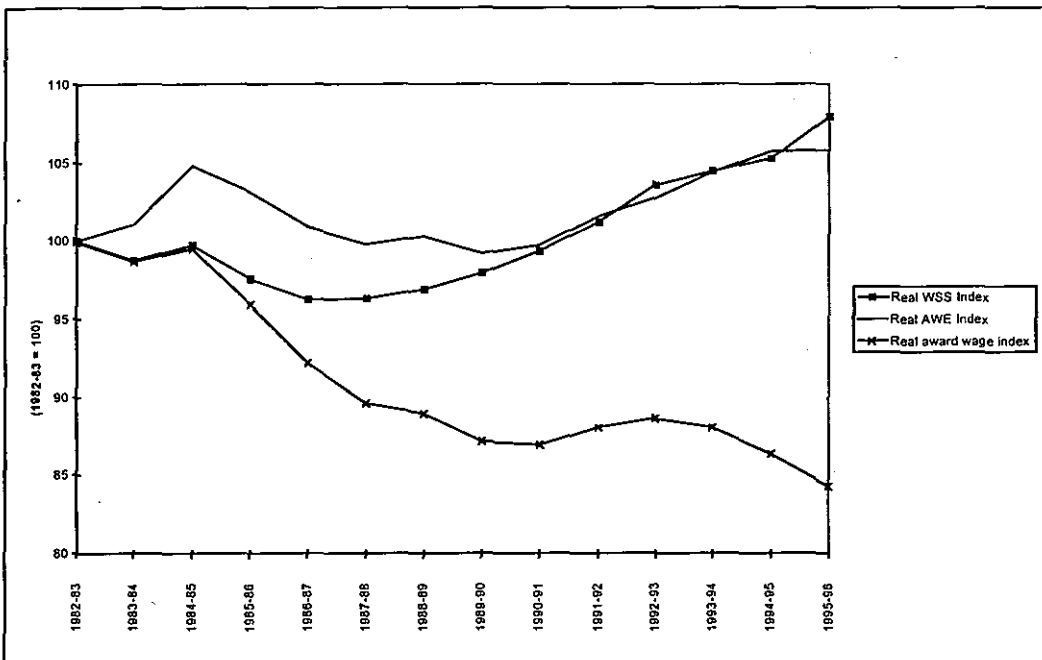
⁸¹ C. Wright (1995), *op. cit.*, p.209.

⁸² *Ibid.*, p.205.

employment, changes in working hours and various forms of wage flexibility. In many cases, demands for such changes occurred against a context of threatened plant closure or the movement of capital overseas.⁸³ It may be that unions have had little choice but to go along with employers cost initiatives that often entail fewer rights and protections in the workplace, increased workloads, changes in working hours, various forms of wage flexibility and the placement of growing numbers of employees in peripheral part-time or temporary jobs.⁸⁴ Persistent conditions of excess labour supply and the consequent diminished prospects of finding attractive employment have forced many employees to seek forms of employment outside full-time waged employment as a refuge from unemployment or, hopefully, as a stop-gap measure until the labour market improves rather than face the choice of withdrawing from the labour force.⁸⁵

Implications of the power balance

Figure 3: Real Wage Indices, 1982-83 to 1995-96 (1982-83 = 100)



Source: Bramble, 1997.

⁸³ *ibid.*, p.205.

⁸⁴ J. Godard (1994), *Industrial Relations, The Economy, And Society*, McGraw Hill, Canada, p.8.

⁸⁵ J. Burgess (1994), *op. cit.*, p.119; J. Burgess and I. Campbell (1998), *op. cit.*, p.17.

The implications of these changing patterns of employment are profound. Society has watched as "mass unemployment has become chronic and apparently incurable, real incomes have stagnated, jobs have become insecure and working hours have become longer and more intense."⁸⁶ Downsizing has been stimulated in this climate and massive employment reductions have resulted. This has seen a real wage and earnings decline in the period since 1980 with real wages falling to a low of 90.18 percent of 1979 wage levels.⁸⁷ Real wage restraint has been accompanied by a wages structure that has become more extended with an increase in the dispersion of earnings⁸⁸ and characterised by occupational segregation and segmentation.⁸⁹ The shift from manufacturing to service sector industries has seen the growth of a large number of low paying semi-skilled jobs, indicative of the continued movement from of "core" jobs to those on the "periphery". Peripheral employment is characterised by less bargaining power, due largely to low-unionisation in the "periphery" labour market,⁹⁰ with a growing proportion of those employed in such precarious workforms living in poverty, according to conventional measures.⁹¹ Thus upward, or maintenance, pressure on wages from unions has abated whilst downward pressure from rising unemployment has strengthened, as the "downsized" have failed to be re-employed.⁹² Organisational labour shedding consequently presents a significant social problem "unless such labour is absorbed in another part of the economy in reasonably dignified alternative employment, [as] productivity gains will largely represent distributive ploys, with the winners riding on the backs of the disenfranchised".⁹³ In recent OECD surveys, Australia has emerged as one of a small number of Anglophone countries suffering unique dilemmas as a result of increased employment insecurity, growing earnings inequality and growing non-standard employment arrangements.⁹⁴ Predictions are that prospective wealth will continue to be generated and focused in industries that increasingly employ fewer people, and jobs growth will be centred in sectors that are poorly paid.

⁸⁶ C. Hamilton (1997), *op. cit.*, p.25.

⁸⁷ See Figure 3 above; R.D. Lansbury and D. Macdonald (1995), "Public Policy and Industrial Relations: The Case of Australia", in P. Gollan (ed.), *Globalisation and its Impact on the World of Work*, ACIRRT Working Paper 38, University of Sydney, November, p.10.

⁸⁸ R.D. Lansbury and D. Macdonald (1995), *op. cit.*, p.10.

⁸⁹ Braithwaite (1993), "The Australian Government's Affirmative Action Legislation: Achieving Social Change Through Human Resource Management", *Law & Policy*, 15(4): 28.

⁹⁰ J. Burgess (1994), *op. cit.*, p.120.

⁹¹ R.D. Lansbury and D. Macdonald (1995), *op. cit.*, p.32.

⁹² J. Buchanan, K. Van Barneveld, T. O'Loughlin and B. Pragnell (1997) "Wage Policy and Wage Determination in 1996", *Journal of Industrial Relations*, 39(1): 99.

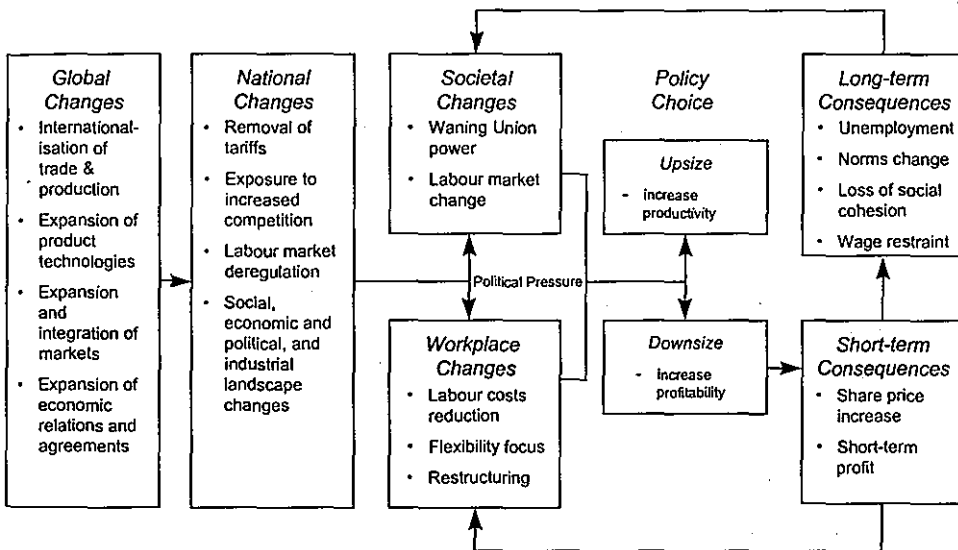
⁹³ F. Gill (1989) "Labour market flexibility - to what end?", *Australian Quarterly*, 61(4): 457.

⁹⁴ J. Burgess and I. Campbell (1998), *op. cit.*, p.18.

Gollan et. al., predicts a social polarisation between those who have work and those who do not, coupled with increasing variation of hours and work patterns for those in employment.⁹⁵

Furthermore, wage policies of large corporations have exacerbated this situation in that they have been important to employees throughout the workforce through their function as standard setters. Smaller businesses usually do not match the pay of large corporations for comparable skills and experience, but they do adjust their wage policies up or down in response to the decisions of their larger counterparts.⁹⁶ Therefore, a reduction in labour costs through downsizing and lower average wages due to relative wage depression may permeate wage levels of suppliers, customers, industry competitors and the labour market at large.

Figure 4: *The Causes, Changes and Effects of Downsizing: A Typology*



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This understanding of economic, political and social changes, as depicted in Figure 4, enables nuanced consideration of the impact of downsizing on the workplace. Employees with long tenure at an enterprise, supporting dependent children or juveniles, who are

⁹⁵ P. Gollan et. al., (1996), op. cit., p.22.

⁹⁶ R. Gephardt and D. Obey (1997), op. cit.

often middle-aged, encumbered by firm-specific skills that are non-transferable, and are further restrained by social and gendered, mobility costs that are involved in dislocating whole households, appear to be particularly disadvantaged. Such employees cannot simply leave employment at the slightest, or even substantial deterioration in their pay and employment conditions. These conditions must be very substantially downgraded before resignation becomes a significant threat. If the prospects of an alternative job are rather abysmal, and a new job entails geographical dislocation, the margin representing the difference between the current value of earnings and the critical threshold which would trigger resignation from the job is even bigger.⁹⁷ Add to this the steady growth of peripheral employment, and the continued use of other forms of contingent work and it seems apparent that large sections of the workforce have little power to frame their terms of employment.⁹⁸ Thus wages can be significantly reduced within the organisation without resorting to, or even in accompaniment to, downsizing.

The “downsized”

Re-employment and conditions

Downsizing produces a context in which variegated post-redundancy careers become common,⁹⁹ however many of those “downsized” finding another job relatively quickly. Webber and Campbell found that in the February of both 1987 and 1989 about 50 percent of those retrenched during the previous year were recorded by the ABS as employed, about a quarter remain unemployed, and the remaining quarter were said to have left the labour force.¹⁰⁰

Case study evidence indicates that a significant fraction of employees made redundant are now destined to long, and frequent, periods of unemployment and eventually to jobs with lower wage levels and employment conditions and lower occupational status.¹⁰¹ Campbell

⁹⁷ F. Gill (1989), op. cit., p.461.

⁹⁸ L. Mishel (1995), op. cit.

⁹⁹ R.M. Lee (1985) “Redundancy, labour markets and informal relations”, *Sociological Review*, 3, p.489.

¹⁰⁰ ABS cat 6209.0; M. Webber and I. Campbell (1997), op. cit., pp.1-2.

¹⁰¹ See S. Deery, G. Griffin, M. Brown and P. Dowling (1986), “The Labour Market Experience of Redundant Workers: A Study of a Plant Closure”, *Australian Bulletin of Labour*, 12(3): 173-195; G. Ebadan and D. Winstanley (1997), “Downsizing, delayering and careers - The survivor’s perspective”, *Human Resource Management Journal*, 7(1): 79-91; M. Wooden and J. Sloan (1988), “Plant Shutdown: A Case Study in Managed Change”, *Australian Bulletin of Labour*, 14: 358-381; K. Davies and J. Esseveld (1989), “Factory women, redundancy and the search for work: toward a reconceptualisation of employment and unemployment”, *Sociological Review*, 37: 219-253; R. Curtain (1987), “After

and Webber's analyses of ABS data for the period 1987 to 1994 indicated that unemployment is a major destination for retrenched workers, particularly for the phase immediately following retrenchment. They found that downsizing made a substantial contribution to the rise in unemployment, and expressed the concern that during periods of job contraction the flows back into employment would tend to evaporate, counterbalanced by swelling unemployment and perhaps drifting into long-term unemployment, consequently stranding the downsized in unemployment for much longer periods.¹⁰²

The impact on those employees made redundant, particularly those who remain unemployed, is similarly pernicious especially with the financial losses that it can bring about¹⁰³ most obviously evidenced in the loss of income and the need to rationalise expenditure.¹⁰⁴ The displacement cost of downsizing, however, involves not only unemployment, but a degree of unavoidable deskilling which occurs in the form of downward occupational mobility.¹⁰⁵ Lower skilled and older employees in particular find re-employment difficult¹⁰⁶ as they are confronted by age becoming a major disadvantage, in the majority of cases.¹⁰⁷ Employers apply selection standards which, in practice, discriminate against older employees despite the operation of anti-discrimination provisions.¹⁰⁸ These employees experience the greatest downward movements in job status once jobs are found and, in a similar fashion, the very young are relatively disadvantaged. Less-skilled and less-educated employees are at a relatively greater disadvantage in the labour market. Portability of skills is a crucial determinant in length of unemployment, so even some more-skilled employees, who had served with the same employer for a long time before retrenchment and whose skills are thus highly firm-specific, may have a lower

Retrenchment: Labour market Experiences of Women and Men", *Australian Journal of Social Issues*, 22(4): 356-375; M. Gordon and P.M. Clarke (1996), "The Challenge Of Under-Utilised Labour Resources: Lessons From A Major Lay-Off in A Regional Centre", 25 *ESC Working Paper Series*, Department of Economics, University of Newcastle, March.

¹⁰² I. Campbell and M. Webber (1996), *op. cit.*, pp.105-109.

¹⁰³ M. Wooden and J. Sloan (1988), *op. cit.*, p.375.

¹⁰⁴ M. Webber and I. Campbell (1997), *op. cit.*, p.4.

¹⁰⁵ S. Deery et. al., (1986), *op. cit.*, p.192.

¹⁰⁶ *Ibid.*, p.191.

¹⁰⁷ R. Curtain (1987), *op. cit.*, p.371.

¹⁰⁸ D.I. Mackay and G.L. Reid (1972), "Redundancy, Unemployment and Manpower Policy", *The Economic Journal*, 82(328): 1271.

probability of re-employment success.¹⁰⁹ Other factors affecting the probability of re-employment are found to be associated with marital status, timing of job search, and the length of tenure with the retrenching employer.¹¹⁰

Those who find alternative employment often lose non-transferable credits that they have accumulated, such as sick leave and long service leave, and lose the privileges of seniority they once had, further lowering their income and employment conditions. Other intangible benefits such as social networks are also forfeited. On average it appears that those who do secure alternative employment usually suffer marked declines in their earnings trajectories and in the occupational status of their job.¹¹¹ Such jobs are accepted by retrenched employees, as the unemployed appear not to hold a reservation wage, preferring almost any job to being out of work.¹¹²

Campbell and Webber (1996) found that statistics strongly suggest that labour market flows into employment, particularly for retrenched employees, is predominantly constituted by flows into precarious employment.¹¹³ As already noted, such non-standard jobs are often unsustainable for many employees, offering inadequate and perhaps irregular income, arduous work, or unsocial hours.¹¹⁴ For some, such jobs are a bridge to better jobs. However, for others, perhaps even a majority, the transition into peripheral employment will mark the beginning, or a cyclical stage, in a distinctive pattern of participation marked by intermittent employment. Such a pattern may entail non-standard employment for limited periods, interspersed with bouts of unemployment and withdrawal from the labour force, in which retrenchment is merely a stage in the current transition.¹¹⁵ Those unable to secure stable, permanent employment, and who are unable or unwilling to adapt to this pattern of intermittent employment, face the divergent employment destinations of long-term unemployment, withdrawal from the labour force or perhaps some form of marginal self-employment. Each of these alternatives involves significant labour market disadvantage or underemployment.¹¹⁶ Notwithstanding, limited re-employment into

¹⁰⁹ M. Wooden (1988), "The Impact of Redundancy on Subsequent Labour Market Experience", *Journal of Industrial Relations*, 30(1): 23-24.

¹¹⁰ M. Wooden and J. Sloan (1988), *op. cit.*, p.377.

¹¹¹ M. Wooden (1988), *op. cit.*

¹¹² M. Webber and I. Campbell. (1997), *op. cit.*, p.4.

¹¹³ I. Campbell and M. Webber (1996), *op. cit.*, pp.111-2.

¹¹⁴ *Ibid.* p.112.

¹¹⁵ *Ibid.* p.113.

¹¹⁶ *Ibid.* pp.113-4.

permanent stable jobs appears to be tightly concentrated on those already in comparable jobs, who can be induced to leave by the prospect of improvement in wages or conditions.¹¹⁷

It is dubious whether downsizing generates productivity increases that enable a genuine rise in economic welfare. Some evidence in the United Kingdom indicates that productivity growth primarily takes the form of increased profits and wages for those who remain employed. Therefore, appropriation of gains acquired through redundancies and through the repositioning of the workforce in relatively low productivity sectors¹¹⁸ may economically benefit those who remain employed, whilst the shed workforce experiences acute deterioration of its standard of living.¹¹⁹ In total there is resultant shift of large numbers from higher paying secure jobs, to lower paying peripheral employment, thus lowering aggregate wage levels arising from the decision to downsize.

Social costs

The social ramifications of downsizing and subsequent unemployment, or the shift to lower paying jobs, is similarly pestiferous, having significant emotional and psychological impact. The social costs of downsizing begins with those employees who suffer the indignity of earning less for their productive output, working longer and harder hours to afford maintain basic living standards,¹²⁰ whilst they suffer stress from the disenfranchisement which manifests itself in their social lives. Research has indicated that employees who are retrenched experience a number of changes in their personal lives, including changes in power relations in their domestic relations, which may involve the loss of respect of family members. They are also less likely to engage in leisure activities outside their household,¹²¹ indicating a withdrawal from the community. The psychological impact on those downsized is also evident. Downsizing causes a rupture in the implicit psychological contract between employer and employee, transforming feelings of dependency or entitlement into a sense of betrayal accompanied by disbelief, anger, hurt and feelings of powerlessness.¹²²

¹¹⁷ Ibid. p.112.

¹¹⁸ J. Burgess and R. Green (1997), *Economic Growth and Employment Reduction in Australia: The Implications of the Changing Relationship*, 29 ESC Working Paper Series, University of Newcastle, p.16.

¹¹⁹ F. Gill (1989), *op. cit.*, p.457.

¹²⁰ D.M. Gordon (1996), *op. cit.*, p.97.

¹²¹ L.D. Morris (1984), "Patterns of Social Activity and Post-Redundancy Labour-Market Experience", *Sociology*, 18.

¹²² F.R. Kets de Vries and K. Balazs (1997), "The Downside of Downsizing", *Human Relations*, 50(1): 18; M. Webber and I. Campbell (1997), *op. cit.*, p.3.

Unemployment appears to have an equally pestiferous effect. The downsized often suffer boredom, pessimism and distress as the loss of work removes the structure of time commitments around which their daily lives were previously organised.¹²³ Unemployment to the individual means a loss of being occupied and therefore a loss of purpose in their activities and a forfeiture of fulfilling a valued social function.¹²⁴ Without freedom of choice and without adequate resources to participate in social activities, low paid employees and the unemployed are denied that right to participate in society. Their socio-economic status affects both their health status, educational attainment and leads inevitably to a loss of social cohesion and increased incidence of social ills.¹²⁵ This loss of social function through unemployment has been found to be associated with higher suicide rates and mortality due to stress related disease; higher rates of admission to mental hospitals and incarceration in prisons; hypertension resulting in subsequent illness; depression, anxiety, aggression, insomnia, loss of self-esteem; and marital problems.¹²⁶ Jamrozik believes that unemployment is a form of violence inflicted onto persons who inevitably become a "human residue" of the economy,¹²⁷ occasioning an unravelling and tearing of the social fabric.¹²⁸

The loss of productive potential due to downsizing can also be substantial to the community. This is manifest in the potential output and income lost through unemployment, premature retirement and under-employment. The cost is compounded as persons involved draw upon unemployment benefits and pension entitlements,¹²⁹ draining unemployment benefits, health, social and welfare services and therefore diminishing tax revenues, thus inevitably eroding public services for those made redundant and their neighbours.¹³⁰ Business in affected communities may also suffer from declining demand, which could lead to their closure and further unemployment. The community may suffer the further cost of criminal activities which the disenfranchised or desperate

¹²³ M. Webber and I. Campbell. (1997), *op. cit.*, p.4.

¹²⁴ D.A. Ahlburg (1986), "The social costs of unemployment", in R. Castle, D. Lewis and J. Mangan (eds), *Work, Leisure and Technology*, Longman Cheshire, Melbourne, p.23.

¹²⁵ *Ibid.*, p.25.

¹²⁶ *Ibid.*, p.19.

¹²⁷ A. Jamrozik (1995), "The 'Free' Labour Market, Unemployment and Crime", in J. Bessant K. Carington and S.E. Cook (eds), *Culture of Crime and Violence - The Australian Experience*, La Trobe University Press, Bundoora, p.190.

¹²⁸ E. Cox (1995), *A Truly Civil Society*, ABC Books; H.P. Martin and Schumann (1997), *The Global Trap: Globalization & the Assault on democracy & Prosperity*, Pluto Press, Sydney.

¹²⁹ M. Gordon and P.M. Clarke (1996), *op. cit.*, p.29.

¹³⁰ D.M. Gordon (1996), *op. cit.*, p.97.

unemployed may take up.¹³¹ Evidence in the United States indicates that the rise in economic rewards from criminal activity helps to explain the rising rate of criminal participation among American men. In a recent study, a substantive positive correlation between levels of earnings and crime rates was found.¹³² Perhaps more alarming, feelings of desperation over job loss may culminate in violence or self-destruction, which has been evidenced by murder in the workplace becoming the fastest growing form of homicide in the United States. Such crimes are often followed by the suicide of the perpetrator.¹³³ However, as Cox notes, we need to recognise that "a loss of social capital may cost us financial capital."¹³⁴ The social cost of crime results in economic loss through damaged property and the psychological distress and social distrust engendered in the victims of crime.¹³⁵

Therefore, the aggregate costs are not only economic but also social and political with some of the conflictual effects of downsizing, such as growing poverty and unemployment, social deprivation and polarisation, flowing into conflicts in the broader society¹³⁶ and aiding the erosion of the sense of community and cooperation. Those feeling the pinch most directly may lash out at those who they angrily hold responsible for their plights,¹³⁷ such as immigrant labour or those on welfare. Rosabeth Moss Kanter warns the corporate community could thus create amongst insecure workers a xenophobic populist force,¹³⁸ whose increasing fear is expressed by non-mainstream political parties and social commentators who perpetuate and amplify this sense of insecurity.

"Corporate anorexia"

Gains for the organisation achieved through downsizing are usually short-lived. Cascio, examining the financial effects of downsizing, found that costs in many cases are not reduced. Apart from the direct costs of severance pay in lieu of notice, accrued holiday and sick leave payouts, and administrative processing costs, downsizing often involves the

¹³¹ C. Hamilton (1997), *op. cit.*, p.25.

¹³² See I. Ross (1997), *A Fork In The Road*, 19th Sir Richard Kirby Lecture, Department of Economics, University of Wollongong, 20 October 1997, p.16.

¹³³ Thornburg (1992), in F.R. Kets de Vries and K. Balazs (1997), *op. cit.*, p.13.

¹³⁴ E. Cox (1995), *op. cit.*, p.26.

¹³⁵ P.N. Junankar and S.A. Kapuscinski (1992), *The Costs of Unemployment*, EPAC, Australian National University, p.6.

¹³⁶ P. Brosnan (1996), *op. cit.*; J. Burgess and I. Campbell (1998), *op. cit.*

¹³⁷ D.M. Gordon (1996), *op. cit.*, p.98.

¹³⁸ See Kanter in D.M. Gordon (1996), *op. cit.*, p.98.

indirect costs of recruiting and employment costs of hiring replacement staff or the use of former staff paid at higher consultancy rates, training and retraining, and potential charges of discrimination.¹³⁹ Further hidden costs are incurred as the more highly skilled employees seem to be the first to leave the company, and consequently, crucial skills in human capital disappear causing substantial setbacks due the institutional memory being disrupted or completely lost.¹⁴⁰

In fact, downsizing appears only to exacerbate poor labour productivity, with remaining employees often being stuck with an increased workload, tending to experience a range of psychological dysfunctions including stress, positive inequity, job insecurity, anger, depression, fear, guilt, risk aversion, distrust, vulnerability or powerlessness, a threatened concept of self and decreased commitment.¹⁴¹ The cumulative effect of these dysfunctions is termed survivor's syndrome, which often has the potential to affect work behaviours and attitudes, including level of performance, morale, motivation, and job satisfaction which may result in slower decision-making, decreased productivity, inefficiencies, time off work and communication problems.¹⁴² The sharp increase in the size of their workload and longer working hours of the "survivors" results in a group of cheerless, fatigued employees, some of whom have to do tasks for which they are not trained, thus reinforcing these negative effects.¹⁴³ At worst, "the downsizing process succeeds in tearing the organization's whole value system apart".¹⁴⁴

The outcomes of downsizing are often uncertain and the management of the processes difficult. The deleterious impact of downsizing on productivity and the difficulty of achieving sustainable cost reductions should not be underestimated. The focus on cost minimisation, often achieved through deskilling jobs, lowering wage and penalty rates and by using cheaper forms of labour such as sub-contractors often results in poor quality production, low employee motivation and may lead to inadequate investment in training, new technologies and methods of production. Further, due to many companies limiting downsizing to reductions in headcount rather than integrating it with organisational redesign or broad, systemic changes designed to detect redundancies, waste and inefficiency,¹⁴⁵ cost cutting and productivity aims are rarely achieved through downsizing. Only 38 percent of firms, in a Littler *et. al.*, (1997) study achieved improved labour

¹³⁹ C.R. Littler *et. al.*, (1997), *op. cit.*, p.76.

¹⁴⁰ F.R. Kets de Vries and K. Balazs (1997), *op. cit.*, p.14.

¹⁴¹ C.R. Littler *et. al.*, (1994), *op. cit.*, p.5; F.R. Kets de Vries and K. Balazs (1997), *op. cit.*, p.27.

¹⁴² P.M. Lee (1997), *op. cit.*, p.881; C.R. Littler *et. al.*, (1997), *op. cit.*, pp.60-70.

¹⁴³ F.R. Kets de Vries and K. Balazs (1997), *op. cit.*

¹⁴⁴ *Ibid.*, p.27.

¹⁴⁵ Cascio (1993) in C.R. Littler *et. al.*, (1994), *op. cit.*, p.6.

productivity, and only half reduced labour costs.¹⁴⁶ The perception of downsizing as a type of organisation-initiated involuntary exit of employees, and the results of the process support the conventional wisdom that turnover generally has a basically negative impact on effectiveness.¹⁴⁷ Any initial upsurge in productivity generally subsides, settling into a condition of fearful expectancy amongst employees.¹⁴⁸ As such, the direct and hidden costs of downsizing can minimise any productivity gains sought from the workplace reform.¹⁴⁹ Further, the unrealised aims of downsizing and the dysfunction it causes amongst those who are left behind, including managers, may create a prevalent malaise in the organisation, spawning more downsizing, leading to "change fatigue" and a reductionist perpetuation.¹⁵⁰

Despite corporate expectations, layoff announcements are found to be correlated to significantly negative results in the United States, which suggests that investors view downsizing as indicative of financial distress, rather than as an optimal way of responding to the competitive environment.¹⁵¹ The failure of most downsizing efforts appears to lie in their overly simplistic, quick fix approach, often equating to mere across-the-board reductions of headcount rather than a strategic rethinking and rebuilding of core competencies to ensure future growth.¹⁵² As Hamel and Prahalad note, this exceedingly short-term approach would not appear to be enough:

Downsizing, the equivalent of corporate anorexia can make a company thinner; it doesn't necessarily make it healthier.¹⁵³

The recognition of the ultimate failure of downsizing as a policy choice, has seen previous advocates of downsizing perform spectacular about-faces, such as that of Stephen Roach, chief economist for Morgan Stanley, New York's fourth largest investment bank. Roach, who for years extolled the virtues of downsizing and "productivity growth" as the new

¹⁴⁶ D. James and G. Stickels (1995), "Cutting staff numbers is the easy part of downsizing", *Business Review Weekly*, 10 July, p.62.

¹⁴⁷ D.L. Worrell et. al., (1991), op. cit., p.672.

¹⁴⁸ F.R. Kets de Vries and K. Balazs (1997), op. cit., p.28.

¹⁴⁹ C.R. Littler et. al., (1997), op. cit., p.76.

¹⁵⁰ F.R. Kets de Vries and K. Balazs (1997), op. cit., p.14.

¹⁵¹ P.M. Lee (1997), op. cit., p.892.

¹⁵² F.R. Kets de Vries and K. Balazs (1997), op. cit., p.13.

¹⁵³ Hamel and Prahalad (1994), p.11 in P.M. Lee (1997), op. cit., p.892.

corporate mantra, now propounds that slash and burn restructuring is not a permanent solution and that tactics of "open-ended downsizing and real wage compression are ultimately recipes for industrial extinction".¹⁵⁴

However in the current climate, it seems difficult to imagine a reversal of the downsizing ethic given the enormous attraction of expected short term profits. At the micro-economic level of the company this choice makes sense as the gains appear to mask, or perhaps outbalance, the longer term negative effects. However these micro-economic decisions lead inexorably to the macro-economic impact of stagnation and all the social ills that go with it.¹⁵⁵ As Sams puts it:

In the meantime, economic leaders seem to be enjoying the life of the grasshopper in the summer, wondering why the ant is so busy worrying about the winter.¹⁵⁶

Summing up - my boat is so small

An end to the jobs collapse is not in sight.¹⁵⁷

In summing up, recognition needs to be made to the overarching concern that wage levels have been affected at a societal and workforce level by a shift from higher paying core jobs to lower paying peripheral jobs being teemed by the downsized, with strengthening employer power and waning union strength accompanied by increasing unemployment, significantly inflated by downsizing, aggregating to depress real wages. It appears that this status quo will remain immutable, with Australian managers predicting that the Australian economy is still in the midst of a downsizing cycle. "Like it or not, Australians are going to have to live with downsizing for the foreseeable future".¹⁵⁸ In considering this forecast it must be acknowledged that employees have suffered the effects of real wage restraint only to see their efforts dissipated in massive downsizing and work intensification in the 1990s.¹⁵⁹ Throughout the last two decades organisations appear to have been unsuccessful, and will continue to fail if left to their own devices, in delivering high wage, high

¹⁵⁴ Roach in S. O'Neill (1996), "Why Corporate Downsizing Doesn't Work: The 'Confessions' of Stephen Roach and other views", *Current Issues Brief 21 1995-96*, Department of the Parliamentary Library, Canberra.

¹⁵⁵ K. Donaher (1996), "Introduction: Corporate Power and the Quality of Life", in K. Donaher (ed.), *Corporations Are Gonna Get Your Mama*, Common Courage Press, Maine, p.22.

¹⁵⁶ P. Sams (1997), "An Agenda for Working People", *The Global Trap: Conference Archive*, <http://conference.socialchange.net.au/globaltrap/conference/sams.html>.

¹⁵⁷ H.-P. Martin and H. Schumann (1997), op. cit., p.103.

¹⁵⁸ C.R. Littler et. al., (1997), op. cit., p.69.

¹⁵⁹ R. Green (1996), op. cit., p.80.

productivity workplaces.¹⁶⁰ Downsizing does not represent an inevitable process of adaptation, but is only one amongst a set of policy choices. Indeed such neo-liberal programs represent a poor choice, which threatens to set individual nations on a "low road" rather than a "high road" to restructuring.¹⁶¹

The western world is a capitalistic democracy that is theoretically supposed to seek the greatest good for the greatest number, even while it respects the rights of the individual. A fundamental precept of capitalism is that it works largely through market forces, and those market forces cannot be repealed or controlled. "But democracy is not just of, by, and for the markets. It is designed to be of, by, and for the people".¹⁶² These short-terminist policies of increasing work effort and restraining real wages may create competitive pressures encouraging mimetic isomorphism, which could lead to a downward cycle of cost-cutting which is not sustainable in the longer-term. Again, as the defector Roach puts it: "labour ... cannot be squeezed for ever".¹⁶³ There are limits to how far wages can be driven down and how hard employees will work. It is society's imperative to embark on a comprehensive campaign to improve the living standards of the majority and to ensure that increased organisational profits are not at the expense of a disenfranchised minority.¹⁶⁴ The words of President Kennedy seem prophetic:

'O God, the sea is so great and my boat is so small.'¹⁶⁵

The rising tide need not ebb, but there is a need to repair our leaky boats.

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¹⁶⁰ *Ibid.*, p.81.

¹⁶¹ I. Campbell and J. Burgess (1997), *op. cit.*, pp.41-42.

¹⁶² D. Obey (1997), *op. cit.*

¹⁶³ Roach in H.-P. Martin and H. Schumann (1997), *op. cit.*, p.123.

¹⁶⁴ F. Gill (1989), *op. cit.*, p.466.

¹⁶⁵ Old Breton prayer inscribed on plaques given to submarine captains by Admiral Hyman Rickover. Remarkd by President John F. Kennedy at the dedication of the East Coast Memorial to the Missing at Sea, May 23, 1963, *Public Papers of the Presidents, 1963*, p.830.

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