

# Job security in the 1990s: How much is job security worth to employees?

Flexibility—the ability to contract or expand a firm's workforce in response to market demand for the firm's products—has been hailed as a key to corporate success since the late 1980s. But has this ushered in a new era of job insecurity for workers? And at what cost? This article presents evidence on employees' feelings of job insecurity in the 1990s and on the value that they place on security of employment.

Neoclassical economics implies that if workers value job security, there will be a trade-off between pay and security. In this view, if workers are offered more secure contracts, they would be willing to accept a lower wage. This theory of compensating differentials can be traced back to the writings of Adam Smith in *The Wealth of Nations*. Research in social psychology suggests that the value of job security (or the compensation required for job insecurity) is probably quite large. Aside from its effects on workers' satisfaction (utility), job security may elicit levels of commitment that are difficult to match by other means. Thus, from an employer's point of view, greater flexibility offers advantages but these need to

be weighed against its disadvantages. In particular, employers might have to pay a substantial bonus to workers to compensate for insecurity or, alternatively, settle for lower quality workers.

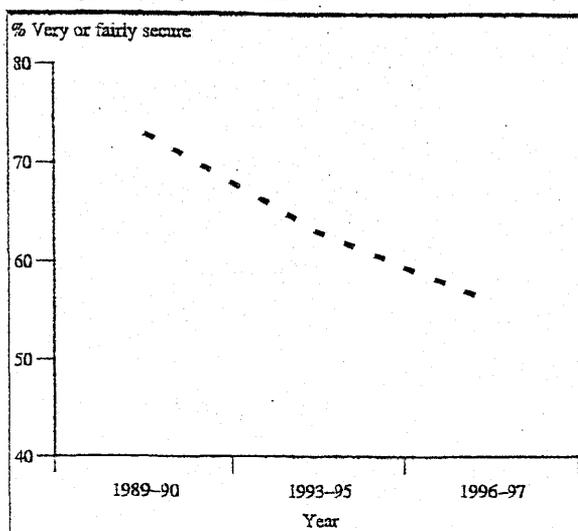
This analysis addresses several issues:

- It assesses Australians' perceptions of the security of their jobs and how much security has declined since the late 1980s.
- It puts these perceptions into international context with comparisons to a high-security 'Scandinavian model' country (Finland), a country whose dramatic, on-going marketisation makes Australia's restructuring look tame (Poland), and a still largely-unreformed socialist economy in free-fall (Bulgaria).
- It shows which Australian workers have secure jobs and which do not.
- It measures the impact of job security on workers' satisfaction with their income, controlling for

## Topics in future issues

- **Economic policy:** Attitudes to industry protection, with international comparisons. Public attitudes to tax, tariffs, spending on social services, government regulation, and government ownership. Efficiency of government versus private enterprise. Attitudes toward genetic engineering.
- **Employment:** Job satisfaction. Mismatch between employees' skills and job requirements. Who gets good jobs? Jobs in Australia compared to other nations. Effect of unemployment on well-being. Discrimination against migrants? Attitudes to affirmative action.
- **Remuneration:** How well does education pay? Family background and pay. Fair pay (with international comparisons): how much should lawyers earn? Corporation chairmen? Factory owners? Doctors? Cabinet ministers? What do Australians think should determine pay? Non-monetary rewards of jobs.
- **Finance:** What do people think about their superannuation? Consumer confidence. Gambling: social impacts and attitudes.
- **Politics:** How did people's attitudes change about the GST and tax reform? Voting intentions and behaviour. Who are the One Nation supporters? Class and party. Emotional attachment to the nation. Public attitudes towards Australian big business, multinational corporations, and trade unions. Trends in ethnic tolerance.
- **Family and society:** Changing attitudes. Family background and education. Do independent schools do better by their students? Why married women work. Religion: what Australians believe. Attitudes to sexual permissiveness, abortion, euthanasia. Neighbouring. Volunteer work.

Figure 1  
Declining job security in Australia



This decline in security is important. Using methods described later in the paper, we estimate the decline is equivalent to about a 13% drop in income. That is, it would take a pay rise of 13% in the (not very secure) jobs Australians have now to make them as rewarding as the (more secure) jobs Australians held in the late 1980s.

Thus, a firm's ability to contract its workforce in response to declines in demand for the firm's products comes at a substantial cost to the workers. At the same rate of pay, workers will find their jobs less satisfying. To provide the same level of satisfaction—and the same quality of worker in the long run—firms would have to increase the pay of insecure jobs by 10% to 15%.

### How does Australia compare to other nations?

We put these job security questions to representative national samples in Finland, a stable 'Scandinavian model' quasi-socialist country; in Poland, a formerly socialist country now rapidly shifting to a market economy; and in Bulgaria, a declining, still largely unreformed socialist economy deeply mistrustful of markets (Figure 2).

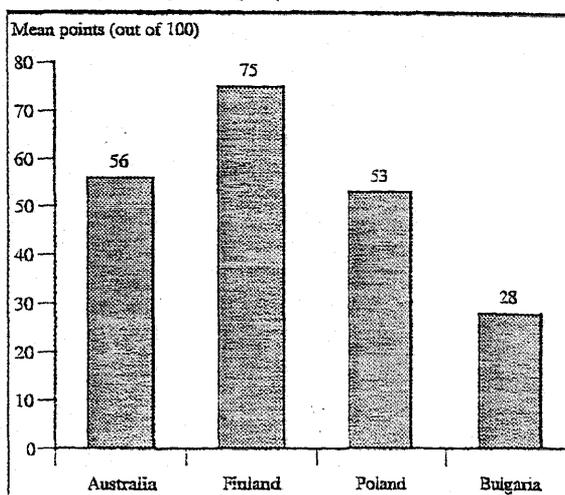
The Scandinavian model clearly offers the most secure jobs: 75% of Finnish workers say that their jobs are definitely secure or probably secure. Interestingly, that is about the same level of security as Australian workers felt in the late 1980s, before the recent economic changes. But now Australians' security has fallen sharply to 56%.

Although the transition beyond socialism began only recently in Poland, it seems to have reduced peo-

ple's feelings of job security from the high levels that prevailed under communism: only 53% of Polish workers now feel at least fairly secure in their jobs. This is about the same level as for contemporary Australia.

Bulgaria's declining (and still mostly socialist) economy seems to provide even less security. Only 28% feel fairly secure in their jobs. It seems likely that decline makes people feel insecure despite government policies endorsing permanent employment.

Figure 2  
Job security in comparative perspective



### Who has secure jobs?

What kinds of Australian workers have secure jobs? There are some striking differences, revealed by regression analysis (Figure 3).<sup>5</sup>

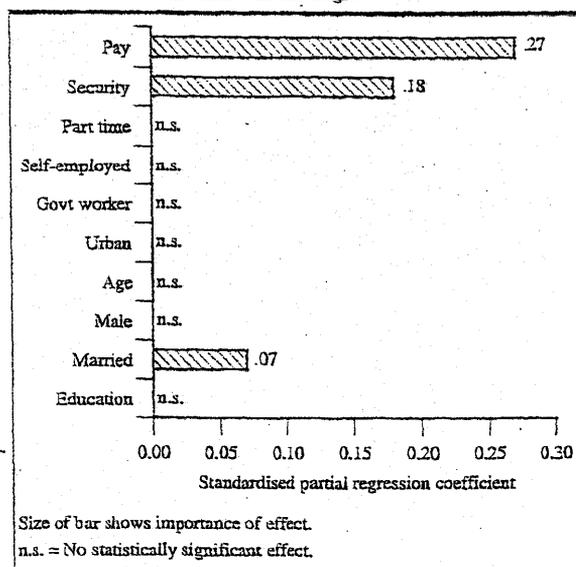
Part-time workers have much less secure jobs than full-time workers, 11 points (out of 100) less secure. This is the single most important difference of all those we examine. Note that this is an independent effect of part-time status, quite apart from other partly overlapping characteristics of part-time workers such as their sex, education, urban residence, and trade union membership—all of which are controlled in the analysis.

Farmers and other self-employed people feel much more secure than their peers who are employees, by about 7 to 9 points. Supervisors are more secure than those they supervise, by 5 points.

Government employees are more secure than their private sector peers, 7 points out of 100—despite the past decade's attempts to emphasise merit and performance in government employment.

Surprisingly, those in higher status jobs (like professionals and managers) are in general no more

Figure 4  
What makes for satisfaction with earnings?



other partially overlapping effects (such as pay and other job characteristics) that might distort it filtered out by the regression analysis. Thus, job security is a very important factor in determining workers' satisfaction with their financial situation: having a secure income is fully two-thirds as important as having a large one.

Of the many other aspects of work and background in the model, nothing else has any substantial impact on satisfaction with pay. The only (minor) exception is that getting married seems to yield a small gain in satisfaction, perhaps reflecting spouse's earnings or possibly economies of scale in establishing and running a household.

### Implications for pay packages

These results have important implications for pay packages. Let us begin with an example:<sup>10</sup>

- Take a worker in a secure job—as secure as that of a typical full-time government employee, 73 points on the job security scale—but with low earnings of \$10 an hour. On average, workers like this are moderately satisfied with their income and standard of living, 59 points.
- How will a such a worker react if their job security declines? Suppose security were to decline to the low level typical of unskilled workers in the private sector, who average only 53 on the job security scale.<sup>11</sup> This drop in security would reduce the worker's satisfaction with his pay and standard of living to 56 points, down 3 points from his previous 59 points when the job was secure.

- The countervailing increase in pay required to restore the worker to his former level of satisfaction is substantial: his pay would need to be raised from \$10.00 per hour to \$14.44 per hour, an increase of 44% (Table 1).

Similar calculations show that for a worker who began by earning \$20 an hour with high job security, the same drop in security would require a pay rise to \$24.93 per hour to compensate fully. That is an increase of 25%.

For a very prosperous worker earning \$40 an hour, the same drop in security would require a pay rise to \$46.48 to compensate, 16% more.

Job security has a high value to workers, especially low paid workers: for them, security is equivalent to a very substantial part of their pay. Other examples of combinations of pay and security that are equally attractive to workers are given in the rows of Table 1. The relative impact of security on income satisfaction decreases as salaries increase. This may imply that over the long run, with sustained economic growth and increases in real earnings, job security may become a less pressing issue. These results further suggest that job security was a more valuable commodity to all workers a long time ago when real wages were lower for the same jobs.

The results in Table 1 also imply that the 1990s' decline in job security has significantly reduced workers' satisfaction with their pay and standard of living. Indeed, Australia's actual decline in job security between 1989 and 1997 has reduced worker's satisfaction with their pay by as much as a 15% drop in income would have without any change in security, on average.<sup>12</sup> That is a substantial loss to the workers.

Table 1  
Trade-offs between pay and security: Each row gives alternative compensation packages mixing pay and security to produce the same level of satisfaction

High security <sup>(a)</sup>	Average security <sup>(b)</sup>	Low security <sup>(c)</sup>
\$10.00	\$12.07	\$14.44
\$20.00	\$22.28	\$24.93
\$30.00	\$32.66	\$35.66
\$40.00	\$43.02	\$46.48
\$50.00	\$53.38	\$57.70
\$60.00	\$64.08	\$69.17

Notes: (a) Average for full-time public employees, 70 points.  
(b) Average for the workforce as a whole, 62 points.  
(c) Average for part-time private sector employees, 53 points.

'working full-time for pay' and zero for those reporting themselves as 'working part-time for pay'; *Government worker* is scored 1 for employees of local governments, state governments, or the Commonwealth government, and zero for others; *Occupational status* is measured by Kelley's Worldwide Status Score, a widely used, internationally applicable measure of job quality ranging from 0 for the worst jobs to 100 for the best; *Trade union membership* is dichotomous variable scored 1 for current members, zero else; *Earnings* are annual income from wages, salaries and self-employment divided by the number of hours worked during the year (estimated from total weeks of work during the year and from hours worked in current job, both of which are collected as continuous variables).

## Notes on data

**Australia.** Data are from a file pooling four rounds of the International Social Science Surveys/Australia, Australia's leading academic survey, conducted between 1989 and 1997. There are 14 433 cases in all, of whom 8418 are currently employed and so included in the analysis. In analysing the effects of job security, we use the more elaborate set of security questions in the 1994/95 and 1995/96 ISSS/A surveys with 2338 cases. These are all representative national samples of Australians in all states and territories, based on simple random samples drawn by the Electoral Commission from the (compulsory) electoral rolls. Potential respondents were contacted by mail, using a slight modification of the Dillman total response method. Non-respondents were pursued by up to 5 subsequent contacts over a six to nine-month period. Completion rates (defined as number of completions divided by number of completions plus refusals) averaged between 60 and 65%. These rates compare favourably with recent experiences in many industrial nations (e.g., the highly regarded 1989 International Crime Victim Survey averaged 41% in 14 nations and 45% in Australia). Comparison with the census shows that all four samples closely mirror the population in age, sex, education, labour force participation, occupation, industry and all other variables which can be compared. Sikora's article, below, also compares the Finnish and Polish ISEA surveys with Census data and finds that they match well.

**Bulgaria.** The 1997 Bulgarian edition of the International Survey of Economic Attitudes, was directed by Tsocho Zlatkov (Institute of Sociology, Bulgarian Academy of Science) and Krzysztof Zagorski (Institute of Political Studies, Polish Academy of Sciences) and face-to-face interview data were collected by trained interviewers from the Agency for Social Analysis. There are 1273 cases.

**Finland.** The 1994 Finnish edition of the International Survey of Economic Attitudes was conducted entirely by mail. Comparison with Census data indicates that it is representative of the population.

**Poland.** The 1994 Polish edition of the International Survey of Economic Attitudes was conducted in co-operation with the Institute of Political Sciences, Polish Academy of Sciences and the Centre for Social Opinion Research, Warsaw, a highly regarded quasi-government agency. K. Zagorski was principal investigator. The interviews were face-to-face, conducted by the Centre's regular staff of trained interviewers. Completion rates were over 90% and there are 2127 cases. The 1997 Polish edition of the International Survey of Economic Attitudes was conducted in early 1997 as a panel on the 1994 ISEA, by the same group and using the same methods. There are 1669 cases.

## Technical notes

<sup>1</sup>See page 18.

<sup>2</sup>The questions on job security are © copyright by Jonathan Kelley, MDR Evans and Krzysztof Zagorski. They may not be used without the explicit written consent of the copyright holders.

<sup>3</sup>This result is from a regression analysis.

<sup>4</sup>Correlations between items are:

	Correlations			
	(1)	(2)	(3)	(4)
1. Job secure	1.00			
2. Future in company secure	.81	1.00		
3. Legally secure	.56	.55	1.00	
4. Company stay in business	.36	.39	.23	1.00

<sup>5</sup>To increase reliability, security is measured by an index averaging the responses to all four security questions. Scores therefore range from 0 (someone feeling very insecure on all 4 questions) to 100 (someone feeling very secure on all 4 questions), with intermediate answers getting intermediate scores.

<sup>6</sup>Based on a further regression analysis not shown in Figure 3.

<sup>7</sup>For the analysis, the items were scored in equal intervals from 'delighted' = 100 through 'terrible' = 0 and then averaged. Combining them into a scale is justified by their high inter-item correlations and by confirmatory factor analysis results not shown here.

<sup>8</sup>We model satisfaction with pay as a function of hourly pay, pay squared (to capture the declining marginal utility of pay), job security, job characteristics (part-time, government employment, self-employed, job complexity, dirt & danger involved), and control variables (age, sex, education, urban, and married):

$$\text{Satisfaction} = b_0 + b_1\text{Pay} + b_2\text{PaySquared} + b_3\text{Security} + b_4\text{PartTime} + b_5\text{Govt} + b_6\text{SelfEmpl} + b_7\text{ComplexJob} + b_8\text{DirtyJob} + b_9\text{Age} + b_{10}\text{Sex} + b_{11}\text{Education} + b_{12}\text{Urban} + b_{13}\text{Married} + e.$$

<sup>9</sup>These are standardised partial regression coefficients, and so directly comparable. The estimate for pay is a 'sheaf' coefficient combining both the linear and curvilinear effects; see Hugh P. Whitt 1986 'The sheaf coefficient: A simplified and expanded approach' *Social Science Research* 15:174-189.

<sup>10</sup>To assess the implications for pay packages, we rely on the regression equation (described in note 3) that estimated the impact of both pay and security on satisfaction with income. From that, we compute the expected income satisfaction of an otherwise typical person earning, for example, \$10/hr in a very secure job. We then compute his expected income satisfaction if all else remained the same, but the job became very insecure. To assess the economic equivalent of this change, we then raise the income of this (now) insecure worker until his predicted satisfaction returns to its previous level. In the example, it does that at \$14.44/hr.

<sup>11</sup>Coincidentally, this is also the typical security level for part-time workers.

<sup>12</sup>This result is calculated by assessing the difference in predicted values from the regression equation described in note 3 with security set to the typical level prevailing in 1989 and with security set to the typical level in 1997. We then compute how much extra income would be required to lift the 1997 level of satisfaction back to its 1989 level.

<sup>13</sup>For example, at the SPC canning factory in Victoria.

<sup>14</sup>This argument assumes that the new lay-off arrangements do not harm the employer. This is more likely to be true in industries that are cyclic. But in extremely volatile industries, offering security might be too expensive to the employer.

<sup>15</sup>These results come from a regression analysis of the 1995/96 data. The job commitment measure is based on the questions 'I care a great deal about how well I do my job' and 'Doing my job well is important to me'.

## References

- Bean, Clive. 1991. 'Comparison of National Social Science Survey with the 1986 Census' *NSSS Report*, Suppl.(2)6: 12-19.
- Sikora, Joanna. 1997. 'International Survey of Economic Attitudes in Australia, Finland and Poland: Comparison with the Census'. *Wwa: Worldwide Attitudes 1997-12-31:1-8*.
- References to data are on page 18.