Jobs: lessons from the great recession

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Those who still have jobs should get used to pay cuts, furloughs, and all-around uncertainty. Welcome to the age of the microentrepreneur.

Thanks to the Great Recession, another corporate taboo has been shattered: large-scale pay cuts. As a general practice, companies typically resist slashing worker pay during downturns, especially for their white-collar employees. The preferred response to falling profits has long been layoffs. The main reason both managers and workers prefer layoffs to pay cuts is that pink slips seem to concentrate the pain while pay cuts spread the distress.

"Employers are reluctant to cut the nominal rate of pay," says Daniel J.B. Mitchell, professor emeritus at the UCLA Anderson School of Management and the School of Public Affairs. "It causes morale problems and antagonizes the workforce."

That may be true, but it's an idea management felt free to ignore during the longest, most severe downturn since the Great Depression. Beleaguered managers burning the midnight oil decided not only to embrace mass layoffs but to institute pay freezes, pay cuts, and furloughs to a wider extent than before. Companies figured out they wouldn't pay much of a price with the supply of unemployed and marginally employed workers so high.

The reductions haven't been met with much overt complaining. This time around people might be grateful just to have a job. The ska punk band Less Than Jake captured the new reality with these lyrics:

Pay cut but it's a paycheck.

Surviving is my best revenge.

What hurt you once won't hurt you again.

Like layoffs, pay cuts may become common

Thing is, if history is any guide, managers will feel free to enact pay cuts, pay freezes, and furloughs even during the next expansion in the business cycle. Certainly that was the experience with mass layoffs. In the 1950s and '60s, companies preached the ethic of corporate loyalty, especially with their white-collar workforce. But companywide layoffs started expanding during the turbulent '70s and the brutal recession of the early '80s. America's largest corporations became comfortable with downsizing, reengineering, and restructuring, all euphemisms for mass layoffs. "The End of Corporate Loyalty?", a BusinessWeek cover story from August 1986, captured the trend, noting that "cutbacks are becoming a way of life even in healthy companies."

The impact on workers was dramatic. The layoffs were concentrated among high school graduates and those with less than a high school diploma. Companies held on to their skilled workers as much as possible. The proportion of high school graduates enrolling in college following graduation was 49% in 1980, and today most people who graduate from high school go to college. "For individuals, the way to protect yourself against pay cuts is to have skills that are in demand," says Barry Bluestone, director of the Dukakis Center for Urban & Regional Policy at Northeastern University. "People had to get more education."

A college degree is still a valuable safety net. Companies complain about a shortage of workers with the skills to fill the jobs created by new technologies and the rise of increasingly complex organizations. Of course, a sheepskin is no guarantee that your employer won't knock down your salary by a little—or a lot.

Rise in both savings and microenterprise

Still, this time around, two new lessons are being learned by the folks who make up the U.S. labor pool. The first is to save more. Certainly workers are getting the message with Americans saving like there's no tomorrow. Imagine, a mere two years ago the personal savings rate hovered around 1%, and now it has jumped to more than 4%.

It isn't just the numbers that have changed. The way people think and talk about savings is quite different. We not only praise thrift, we practice it. "Savings is your own personal unemployment insurance," says Mitchell. "People will say it's good to have unemployment insurance, but it will only go so far. You need some savings of your own."

The other lesson speaks directly to the emerging DIY mindset of the post-meltdown era. Instead of relying on the onetime holy grail of employment—a good-paying job with full benefits—workers may find themselves becoming microentrepreneurs, especially those in creative businesses. For instance, many recent college graduates own their own "independent" music company on a social networking site. Small, entrepreneurial ventures provide another safety net, giving workers a small measure of control over their fate in an increasingly unstable environment.

The microentrepreneur idea intrigues Richard Florida, professor of business and creativity at the Rotman School of Management at the University of Toronto and a noted observer of shifting social dynamics. Adds Dave Ulrich, professor of business at the University of Michigan and a partner at the RBL Group, a consulting firm: "Plan for a career mosaic. Careers used to be linear with stages or steps that people could anticipate. Now they are a mosaic where people move into and out of positions and jobs."

That mosaic now includes your own microenterprise on the side—just in case.

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