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Economy in Society: Essays in Honor of Michael J. Piore

By ODED STARK

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Book Reviews

Economy in Society: Essays in Honor of Michael J. Piore. By PAUL OSTERMAN. MIT Press, Cambridge, MA and London. 2013. 167 pp., £20.95.

This book is a collection of five essays on labour markets, technology, industrial development, regulation, and public bureaucracy. The essays correspond to themes explored by Piore, and are written for a wide-ranging audience; there are no formal models, equations, or statistical tables in the book. Indeed, economics is somewhat backstage; the essays are cross-disciplinary in nature and at times resort to terminology that is alien to standard economics vocabulary. In a way, the title of the book alone should allow one to predict that: after all, the title is nearly that of a book published a century earlier, *Economy and Society* by Max Weber, which *inter alia* addresses topics in sociology, public administration and, well, economics too.

Presumably, the essays in this book that are of particular interest to economists are those on internal labour markets, and on migration. In this review I report briefly on the former, and more extensively on the latter.

In 'Revisiting Internal Labor Markets,' Diane Barton sets out to add to the received literature on this subject. The internal labour market perspective (as opposed to the standard labour market stance) conceptualizes the firm as a universe on its own. Firms employ rules and procedures that govern the employment relationships in the workplace. Given this perspective, the questions that immediately spring to mind are where these rules come from, and why different firms resort to different sets of rules. Sure enough, these are precisely the questions taken up in Barton's chapter. Not all that surprisingly, she argues that a firm's surrounding environment impacts on the type of rules that the firm employs internally. She maintains that regional clustering is an important dimension of that environment, and she explains how the manner in which a given firm manages itself is influenced by the manner in which adjacent firms manage themselves. From here it follows that because regional clusters differ in many respects, a firm in one cluster will be subjected to different competitive pressures and mimicking opportunities from those of a firm located in another cluster. Consequently, the employment relations and work arrangements will vary too. While there is little reason to grumble about this line of reasoning, it is not wholly satisfactory because causality could run in the opposite direction. Firms with a specific internal labour market apparatus – let me refer to that as culture – choose to locate where neighboring firms are expected to exercise influence that is conducive to, and supportive of, their own culture. Thus, it is possible that clusters emerge or are formed as a result of prevailing internal labour market cultures, rather than shape these cultures.

The essay (chapter) that I read particularly attentively is the one that is closest to my own line of work. 'Labor Migration and the Potential for Industrial Renewal' by Natasha Iskander also happens to stand out in the book; it is thought-provoking, and it offers high innovative value.

Iskander reviews the experience of Mexican migrants in the construction sector in Philadelphia, Pennsylvania, and in Raleigh-Durham, North Carolina. These two cities were selected because of the different degrees of tightness of their construction labour market; it is strongly unionized and hard to penetrate in Philadelphia, looser in that regard in Raleigh-Durham. The chapter is based on a diligent study of the experience of Mexican construction workers before their migration to the USA, as migrants in the USA and, in a good number of cases, on their return to Mexico. Specifically, the chapter draws on interviews conducted between 2006 and 2009 with a 'range of industry actors' in the USA, with over one hundred migrants in each of the two research cities, and with over sixty 'institutional actors' and returning migrants in Mexico. The key questions raised in the study are how the migrants integrated into the construction sector; whether their pre-migration construction skills were applied productively, modified, upgraded, and contributed to the prevailing construction techniques, processes, and modes of organization in Philadelphia and in Raleigh-Durham; and whether the accumulated US construction experience was gainfully transferred to Mexico on the migrants' return. The study also inquires to what extent construction workers who migrate and then return bring innovations and technological improvements in an industry in which practices and procedures are often embodied in or intertwined with the practitioners and processors.

The profile that emerges is of Mexican migrants who were already experienced in construction work before their arrival to the USA, bringing with them valuable adaptive capabilities. They could

be relied upon to work as independent and flexible teams when given the opportunity and freedom to do so. They were however inhibited ('shut out') when trying to move up the industry ladder when in the USA. And quite often, they faced considerable hurdles in trying to transfer their enhanced skills and enriched experience on returning to Mexico, or when they tried to re-enter the construction sector there other than at the bottom.

The chapter adds significantly to the literature on the labour market performance of migrants. It not only constitutes an elegant summary report; it also lays out a rich research agenda. I list here six of the research questions or themes that the chapter raises.

1. Did Mexican workers who contemplated migrating to the USA to work there as construction workers elect to acquire construction skills (such as putting up a drywall) in Mexico *because* of their planned migration? If yes, then this would suggest that the *prospect* of migration is a catalyst of skill acquisition which, without the prospect of leaving, would not have taken place. And in this case, if not all those who enhance their skills end up migrating, the construction sector in Mexico could gain even before the return home of Mexican migrants with enhanced skills acquired in the USA.
2. The difficulty that skills which are visible and known (recognized) in Mexico are not recognized for what they are in the USA is tantamount to stating that migration occurs in a regime of asymmetric information: employers on the US side of the border have information only on the skill distribution, not on the individual skill levels of the migrants. In this context, migrant workers are paid a wage based on the average productivity of the group of workers. This encourages low-skill workers to migrate as they are averaged up when high-skill workers migrate, that is, if the latter still find it advantageous to migrate in spite of being averaged down. Thus, the supply mix to the US construction industry is of lower quality than it would have been if skills were perfectly discernible on the migrants' arrival, in which case only the high-skill workers would find it advantageous to migrate.
3. There is more to the story of the apparent influence of the migrants on the technologies used by, and on the structure of, the sector that they join, in particular on the distribution of construction firms by size. As an illustration, take the case of seasonal migration from Poland for work in German agriculture, a migration phenomenon that has persisted for more than a century (Kepinska and Stark, 2013). It is quite possible that the viability of German small farms was sustained and prolonged by the very use of such labour.

In that context, there is an interesting possible relationship between the availability of seasonal agricultural workers for farming operations in Germany and the change in the distribution of farms by size in Germany. Evidence suggests that the farming sector in Germany has undergone a process of consolidation: the ratio of small farms (of less than 20 hectares) to large farms (of more than 100 hectares) has fallen, for example from 28 to 1 in 1992, to 7 to 1 in 2005 (through 10 to 1 in 2001, and 9 to 1 in 2003; these and the other data in the remainder of this paragraph are taken from Statistisches Jahrbuch, Germany, various years). The total farmland area in Germany, though, remained fairly constant. A plausible argument could be that the pace of this consolidation would have been even quicker if not for the availability of a relatively cheap Polish seasonal labour force which enabled small farms – in 2005 there were 223,544 farms of less than 20 hectares, comprising 56% of the total number of farms in Germany – to grow high-value, labour-intensive crops and thereby maintain good levels of profitability and remain commercially viable. It will be rewarding to test formally whether there is a causal link between the supply of Polish seasonal labour and the trend in the redistribution of German farms by size. Such a test could draw on data which reveal that there is a high geographical concentration of seasonal workers from Poland in Germany. For example, in 2001, 47% of Polish seasonal workers were employed in 19 out of the 177 labour office districts in Germany. One testable hypothesis is that, controlling for a battery of variables, the pace of consolidation in farming areas in Germany where there are high concentrations of Polish seasonal workers was slower than in other areas. And, of course, a test of causality will be needed as well, because it could also be the case that areas with a high concentration of small farms attract a disproportionately large number of Polish seasonal workers.

Could an equivalent pattern apply to firms in sections of the construction industry in the USA that have a substantial number of (Mexican) migrants, such as the cities of Philadelphia and Raleigh-Durham? And could it be that technological change (mechanization, prefabrication) has been more pronounced where (Mexican) migrant construction workers were not present than where they were?

4. One of the most intriguing parts of the migration process is the evolution and functioning of migrant networks. I cannot recall an example as intriguing as the one provided in the chapter under review, which unravels the difficulties that migrants who return home (with enriched professional experience and enhanced skills acquired in the USA) face on seeking to put their know-how to productive use, a difficulty that arises because a prolonged absence has wiped out their home-specific 'network capital.' Apparently, re-entering the construction sector at home requires connections and links rather than merely qualifications, even if upgraded. As Iskander has it, absorption at home is contingent on having 'social-cum-employment networks' (p. 57). It is quite clear that a study of the role of networks in facilitating return migration is an attractive topic for further inquiry.
5. There is yet another enticing part of the tale of return migration which is not taken up by Iskander. As reported in her chapter, to a considerable extent return migration was due to the US housing crash in late 2007, a crisis which, of course, was imposed on the migrants exogenously. But return, especially when skills are refined and upgraded, could be well planned and, indeed, constitute an element of a strategy that maximizes life-long earnings: at some point, it can become optimal to return and, say, start a business, form a company, and the like. Indeed, we can link this idea with the question raised in point 1. above: pre-migration skill acquisition, migration with skill upgrading, and return migration are three components in a life-long programme of maximizing earnings. Thus, were the migrants not originally planning to return, or was their return pre-planned and perhaps only rescheduled because of the housing crisis? And if the latter, then how were occupational choices and the like molded while in the USA so as to increase the returns to returning?
6. There may be an interesting link between two disparate observations that Iskander makes in her chapter. At one point, she remarks that 'many of the immigrants we interviewed [were] working in the industry [in Mexico] in order to earn the capital necessary to cover the cost of migrating to the United States' (p. 49). In another part of her chapter she describes how Mexican migrants work in self-organized teams, following a 'flexible and holistic approach characteristic of Mexican construction' (p. 53). Group formation can be interpreted as a testimony to cooperation. Because the migrants originate from specific places, it is plausible that a form of 'self-organization' preceded migration. Recent research (Stark and Jakubek, 2013) models migration networks as cooperation agreements between financially-constrained individuals who seek to amass the funds needed to pay for the cost of migration and initial settlement in the country of destination, and expedite their migration. The migration network binds individuals across the sending and receiving countries, and over time. A cooperation agreement is more beneficial than 'going it alone:' it reduces the opportunity cost of migration, and it creates a network in the sense that 'established' migrants contract to support the subsequent migration of others in exchange for receiving support themselves. A problem with such a scheme is that participation in a cooperation agreement involves a risk which arises from the possibility that an individual who is randomly drawn to be the first to migrate might renege, succumbing to the temptation of enjoying a higher income sooner rather than later. However, evidence of post-migration collaboration and team formation could indicate that these risks do not materialize, and that a cooperation agreement is indeed at work. An additional topic on the research agenda would then be to explore whether cooperation at work in the USA is a component in, and a natural extension of, cooperation in financing migration for work in the USA.

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*Universities of Bonn, Klagenfurt, Vienna, and Warsaw;
Georgetown University*

ODED STARK