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Preliminary Thoughts on Identity and Segmentation in Primary Sector Labor Markets

Michael J. Piore

*David W. Skinner Professor of Political Economy
Department of Economics, MIT*

Sean Safford

*Assistant Professor of Organizations and Strategy
Graduate School of Business, University of Chicago*

Abstract:

This paper argues that a shift is occurring in the labor market structure leading to an increase in the use of social networks based on the criteria that were originally the locus of labor market segmentation in low income jobs: race, sex and ethnicity, but also age, disability and sexual orientation. It thus calls into question the presumption of the earlier literature on labor market segmentation that as one moved up the wage hierarchy, jobs were increasingly allocated through formal institutional structures on the basis of objective credentials, and that the adverse labor market outcomes of minority groups in low wage jobs were connected to excessive reliance upon social networks in the labor market.

Key words: labor market segmentation, identity groups, social networks

code JEL : J40, M50, Z13

Remarques préliminaires sur l'identité et la segmentation sur les marchés du travail du secteur primaire

Résumé:

Cet article soutient que l'on assiste à un glissement au sein de la structure du marché du travail, vers un usage croissant de réseaux sociaux fondés sur des critères qui à l'origine faisaient l'objet d'une segmentation du marché du travail au sein des emplois à bas revenu : race, sexe et origine ethnique, mais également âge, handicap ou orientation sexuelle. Cela questionne donc la présupposition des anciens travaux sur la segmentation du marché du travail, selon laquelle a) quand on monte dans la hiérarchie salariale, les emplois sont de plus en plus pourvus par des procédures institutionnelles formelles et sur la base de références objectives et b) les résultats opposés des minorités sur des emplois à bas salaires sont liés à leur trop grande dépendance à l'égard des réseaux sociaux sur le marché du travail.

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Introduction

This paper develops a set of conjectures and hypotheses about developments in labor market segmentation in the higher reaches of the labor market of the United States. It is a companion to our earlier paper on the change in the U.S. industrial relations system (Piore and Safford 2006). The central argument is that a shift is occurring in the labor market structure parallel to the shift that we have noted in the industrial relations system, and is the product of the same set of forces. The shift is leading, in the upper reaches of the labor market, to an increased use of social networks based on the criteria that were originally the locus of labor market segmentation in low income jobs: race, sex and ethnicity, but also age, disability and sexual orientation. It thus calls into question the presumption of the earlier literature on labor market segmentation that as one moved up the wage hierarchy, jobs were increasingly allocated through formal institutional structures on the basis of objective credentials, and that the adverse labor market outcomes of minority groups in low wage jobs were connected to excessive reliance upon social networks in the labor market. The social implications of this segmentation, which were produced by informal networks at the high end of the labor market, are unclear. It could be seen as a positive development, opening access to jobs for previously excluded groups. On the other hand, it will undoubtedly produce new mechanisms of exclusion, but the particular groups that will be excluded will be different. This paper lays out some initial insights and the preliminary research which generated them. We plan to pursue it in further work.

Our understanding of these developments is based on a series of qualitative interview studies with groups of engineers and other high-tech professionals that are organized around race, sex, ethnicity, etc., in the Boston area. Similar groups have been studied in Silicon Valley, particularly in the work of Analee Saxanian (1999), although our findings—and certainly our emphasis—does not necessarily coincide with hers. The impact of these groups is reinforced by institutions and organizations formed along parallel axes of identity at the national level and within large companies (Piore and Safford 2006; Safford and Briscoe 2006; Safford 2006). We have also begun to study

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these latter developments as well, and draw here on our own interviews and on secondary resources.

The emergence and formalization of social identity based groups

The theory of labor market segmentation argued that two separate labor markets exist side by side with the core labor market being governed by a set of formalized internal labor market rules with institutionally driven entry and formal career ladders (Piore 1971; Berger and Piore 1980; Dickens and Lang 1985). The secondary market lacked such rules. Workers moved from job to job with little opportunity for advancement; their movements governed—and in many ways, restricted—by parochial individual social networks which had the effect of “ghetto-izing” movement (this remains the conventional sociological wisdom on secondary labor markets, see Fernandez and Fernandez-Mateo, 2006). The policy response which emerged as part of the equal employment opportunity (EEO) legislation in the 1970s aimed to codify and extend the (largely informally enforced) rules of the formal internal labor market into the secondary sector (Kalev and Dobbin, 2006). Combined with opening access to the kinds of formalized educational opportunities that were the stepping stones into the primary sector, the goal was to eradicate disparities between the two sectors by reducing dependence on informal social networks. Yet, what we observe is that the movement has essentially been in the opposite direction. Rather than expanding the formalized rules of the primary sector into the secondary, it is the primary sector which seems to be moving toward greater reliance on informal social-identity-based networks.

The most readily observable manifestation of this movement has been the emergence and formalization of social identity based groups which have taken on explicit—and sometimes formal—roles in labor market intermediation within higher end, primary sector labor markets. Our material suggests that the local groups are the product of three conceptually distinct types of forces. First are a set of purely social motivations that people like to associate with others who share or can empathize with their distinctive life experiences, and the desire for this kind of association is reinforced by feelings of isolation and vulnerability in the larger community engendered by prejudice and

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discrimination against the members of their group. These are, of course, reinforced when the members also share a common, and distinctive, cultural and religious heritage, as is especially true among ethnic groups which are the legacy of immigration. But, second, these initially social networks become channels of employer recruitment and attract financial and institutional support from large companies. This creates an economic incentive to join the social networks and acts further to stabilize and institutionalize their existence. The employers appear to be motivated here by two factors. One is the pressure to recruit the members of these groups in response to government equal opportunity policies. The other is changes in the organization of work toward project-teams which place a premium on social networks in hiring. The third set of forces at work here is that as they become institutionalized, these initially informal social networks attract the attention of a variety of other economic and political actors and organizations responding to a variety of different incentives, and this attention reinforces the process of institutionalization.

The role of these different forces and the way they interact can be illustrated by four local groups whose members we interviewed in the Boston area: The Indus Entrepreneurs (TIE); Israeli engineers in Boston; Latino engineers in Boston and New York City; and the LGBT student associations at the MIT Sloan School of Management and Harvard Business School. We also discuss the role that identity-based membership organizations at the national level are beginning to play in labor market intermediation efforts.

TIE: The Indus Entrepreneurs

The group with which we had the most extensive contact is TIE, The Indus Entrepreneurs. The group meets monthly at a hotel on Route 128, the circumferential highway along which much of the high tech industry in the Boston area is located. It also sponsors an annual meeting organized around the theme of entrepreneurship along with other chapters of the national organization with which it is affiliated. We interviewed all fifteen of the founding Board members. We also attended the monthly meetings of the organization over a period of a year, during which the number of people at these

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gatherings increased from less than 150 to over 400. The Silicon Valley branch of this organization has also been studied by AnnaLee Saxenian. The Boston group was founded independently a little later than the California chapter but the two quickly became affiliated.

Of all of the groups which we studied, TIE is the most clearly motivated by economic concerns. The founders claim to be looking for opportunities to invest in new ventures. Interviews with the rank-and-file at the monthly meetings suggest that they see the organization as both a source of support of new business ventures (financing, advice and mentorship) and a job finding network. Given the founding Board members and the number of high tech firms which are represented among the participants, both of these claims are pliable. On the other hand, the expressed economic motivations are not fully convincing either, at least as an explanation sufficient to explain the commitment to the organization. The founding members are, for example, all successful and wealthy, but only three or four had the kind of capital which would seem to be required to engage in investment in risky start-up enterprises. Moreover, given the time and energy required to found and support the TIE organization, there would seem to be more efficient and effective ways to find venture opportunities.

A standard theme in the ideology of American entrepreneurship is the importance of community support and the obligation of the successful entrepreneurs to give back to the community by supplying advice, moral support, and capital, and this then was a prominent trope in our interviews with the Board members. But the success of the founding members in their own careers had virtually nothing to do with the Indian community. They had all come to this country either to pursue higher education or through formal recruiting channels after finishing their education in India. They had made their careers in mainstream U.S. business, as executives and in some cases then as entrepreneurs, and virtually all of their working lives had been spent with predominantly non-Indian colleagues and collaborators. Thus their commitment to the Indian "community" had to be explained on other grounds.

The economic motivation also seemed insufficient to explain the growing number of the rank and file who were attracted to the monthly meetings. Conversations

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overheard ranged widely and did not seem to focus particularly on business or job concerns. In interviews, several people mentioned that they were looking for suitable marriage partners, for themselves or other members of their families. There was a fair amount of discussion of business in India, but most of the business opportunities were in the U.S., and most often the discussion of business in India turned out to be about fostering the entrepreneurial spirit there.

The TIE meetings were open to anyone willing to pay the dinner fee, not only to us but to any non-Indian who might wish to attend, and there were a wide variety of such people there. Some of these people were offering their services related to the themes of new business ventures and jobs, such as immigration lawyers and business consultants and accountants. But the meetings were also attended by representatives from various philanthropic organizations oriented toward the Indian subcontinent and seeking support among the people at the meetings. These people reinforced the impression that the meeting was as much about reinforcing the sense of community and community commitment among Indians in the United States, and that the economic motives were inextricably bound up with these community concerns and affiliations.

The monthly meetings of the organization seemed to be financed through contributions and fees collected from the attendees, but the National TIE organization, with which the Boston chapter is affiliated, holds an annual conference that is financed through corporate contributions.

The Boston Israeli Engineers

The organization of Israeli engineers in the Boston area is much smaller than TIE Boston, but is generated by a similar mixture of motivating factors. The Israeli engineering community grew rapidly in the Boston area in the 1990's as Israeli companies become increasingly oriented toward the American market for finance and as an outlet for their products; in the process, most companies opened offices in Boston, the Bay area or in New York, and/or actually moved their headquarters to the U.S.

The organization upon which we focused was founded by a staff member of "Friends of the Technion". The Technion is an elite Israeli engineering school. There is

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apparently no tradition of alumni organizations or alumni giving in Israel, where education is financed by the state. The Friends of Technion was founded to raise money for the university in the United States. The gatherings of Israeli engineers associated with the Technion were initially quite informal and the motivation for founding the group was the desire for social interaction; the potential for fundraising was recognized but not central to the endeavor. The members of the group were clearly attracted by the idea of celebrating religious and non-religious holidays with their compatriots and providing an Israeli cultural (as opposed to a Jewish religious) setting for their children. There was still something of a stigma in Israel attached to leaving to live and work in the U.S. (although it was fading), and members of the Israeli community here welcomed the support of a community of people who had made decisions similar to their own. The members were quite explicit in maintaining that they had no economic motivation for attending these meetings. They were all employed and were not looking for other jobs. In fact, they all had plans to return eventually to Israel, and these plans were important in their self-identity. But IT companies in the area quickly found out about the group and offered to sponsor the meetings by providing funds and a venue.

The Latino Engineers

The Latino Engineers in Boston provide a similar mixture of motivation and support. The Boston organization is a chapter of a larger national organization which has both student and graduate affiliates. We met with the executive committee. The meeting took place at Raytheon, which provided the venue for the group's meetings. Raytheon is a prominent defense contractor, and as such is under considerable pressure to visibly promote equal employment opportunity, and, it was clear from the workers we saw leaving the building when we went to the meeting, has been successful in doing so. Two of the three officers of the organization were Raytheon employees. Both felt that participation in the organization was good for their careers and one of them planned to make his career in the human resource division of the company. They had, however, been recruited in from Puerto Rico, when they studied engineering at the University of Puerto Rico. They had recently come to Boston, and had no friends in the area, so that

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for them the organization was an important social outlet. They had all been active in other organizations, in their fraternities in the University, and one of them was very active in the local Catholic Church in Boston where he lived. A Mexican graduate student with whom we have been working attended a meeting of a chapter of the Latino engineers in New York, and while she was not able to gather as much information there as we were able to gather in Boston, the forces in play were similar. There, IBM provided the venue for the meeting and at least a part of the financial support. The motives of the members were again not obvious.

LGBT Business Students at MIT and Harvard

A similar set of themes emerges in the case of the two student groups we observed whose members are gay and lesbian business school students at MIT and Harvard. Informal interviews suggest that the initial motivation of the members was social, to meet and talk to others in the same awkward position as gays preparing for a professional career in a straight world. But these organizations had come to be a recruiting target for major consulting companies and Wall Street banks that sent representatives in the fall semester to meet with the membership and take them out to dinner. The story of how the Wall Street banks came to play this role is particularly germane. The president of the Harvard club called the placement office at his school to complain about discrimination among the major banks in NYC and to ask the office to refuse to accept recruiters from these institutions on campus. Procedures for handling complaints of this type had been developed in the University and at the banks in response to pressures for equal opportunity for blacks, women, and other underrepresented minorities, and they were evoked by the complaint despite the fact that gays and lesbians have been quite deliberately excluded by Congress from the protected class. The Harvard officers charged with equal employment opportunity compliance therefore followed the prescribed procedure and called her counterparts at the banks in question. The bank EEO officer then sought out an organization of the members of the complaining group with the company. One of the banks had such an organization in formation, and that organization sent a recruiting representative to Boston, as the accepted procedure prescribed. The fact

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that it was there to play this role gave legitimacy to the nascent organization in the bank and helped it get off the ground. Another bank, which did not have an internal organization, asked the student groups if they could contribute in other ways and ended up contributing funds and helping to sponsor the annual meeting of LGBT business students organized by the chapters on various campuses. Hence, again, an essentially social organization takes on an economic function—in this case, building on an established institutional model which had been developed in response to EEO pressures.

Labor Market Programs of Identity-Based National Membership Organizations

Organizations such as the National Association for the Advancement of Colored People (NAACP), La Raza (representing Latinos in the United States), the AARP (formerly the American Association of Retired Persons) and the Human Rights Campaign (HRC), an organization that represents the interests of gay men and lesbians, among others, have long been the quasi-official "representatives" of the interests of various identity groups in the United States. But within the last five to ten years, a significant number of these organizations have created offices or "initiatives" that are directly identifying and addressing workplace issues and concerns associated with their constituencies. The shift that has occurred has been toward engaging directly with employers in order to influence specific terms and conditions of employment in the workplace.

One tool national membership organizations use is to provide labor market intermediation services directly linking workers with potential employers. Groups have dabbled in this area, but in fact many find it both beyond their mandate and too costly to implement. The AARP, for instance, simply provides a link to Monster.com. However, many of the organizations do play a more active role in the labor market stemming from a series of grants put out by the U.S. Department of Labor in the 1970s to encourage organizations to provide counseling and training to low income members of their respective communities. The AARP, American Foundation for the Blind, La Raza and the Urban League were all active participants in these programs.

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So while in the past, their involvement stopped at the entry level. But more recently, groups have come to understand that this role provides them with potential leverage to influence practices for a wider variety of workers. In 2002, Home Depot put out a request for proposals to enter into a partnership with the company to hire and retain a variety of under-represented minorities. Both the AARP and La Raza have entered into partnership agreements with Home Depot to feature the employer among their members and advertise the company's interest and commitment. However, in return, both approached the company to make changes in employment practices; the AARP with respect to benefits for part-time workers and La Raza with respect to providing customer service and vocational English training to supplement the vocational skills workers are provided with in the organization's existing programs. Both the AARP and La Raza are now seeking to expand the employer partnership program beyond Home Depot and have found a great deal of interest among a wide variety of companies to form partnerships.

Labor Market Consequences

The emergence of these groups clearly lays the groundwork for an engineering and professional labor market that is increasingly segmented along the identities that the groups define. However, we do not yet have the evidence to suggest that this is actually occurring.

In fact it is difficult to gauge the degree to which there has been either a shift away from formalized recruitment channels or toward an increase in the use of informal identity-based networks in hiring. A significant literature examines the impact of informal network on social outcomes from both the workers' perspective (Lazear 1991; Corcoran, Datcher and Duncan 1980; Granovetter 1974; Roos and Reskin 1984) and from the employers' side (Fernandez and Weinberg 1997; Fernandez, Castilla and Moore 2000; Petersen, Saporta and Seidel 2000; Ioannides and Loury 2004). And much of that literature focuses on the (generally detrimental) effect that racial, gender and ethnic homophily in informal networks plays in generating labor market segmentation (Blau and Ferber 1987; Hanson and Pratt 1991, 1995).

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However, relatively little empirical evidence has been gathered on the degree to which employers actually rely on formal versus informal routes to hiring or whether there is a trend toward or away from informal recruitment methods. Peter Marsden (1994) in a survey of American organizations conducted in the early 1990s found that between 34% and 42% of companies use either employee or professional referrals in making hiring decisions, although only 10% use either kind of referral as the sole source of recruitment. Small companies were more likely to rely on referrals than larger ones and service-providing companies were more likely than product-producing companies. Private sector employers are more likely to use referrals than others. But—nearly thirteen years after their publication—those data reveal little about the trends and do not provide insight into the degree to which identity networks are or are not infiltrating upper reaches of the labor market where more formal hiring patterns have been thought to prevail.

Nevertheless, a consensus seems to have emerged around the idea that various forms of mediated employment are increasing (Autor 2001; Finlay and Coverdill 2002). The number and revenues of intermediaries of all kinds—executive recruiters, headhunters and temporary help agencies—have steadily increased since the 1970s. Conversations with both hiring managers and human resource management officials suggest one reason for this expansion is an effort on the part of human resource managers to reign in precisely the kinds of ad hoc—personal network driven—hiring driving the newer forces of stratification and segmentation we believe to be happening. Driven by fears about the potential consequences of non-formalized recruiting—both with respect to the role of HR within the organization as well as the organizations' vulnerability to legal and administrative equal employment opportunity challenges—HR managers have sought to reassert a role by requiring hiring managers to use contingency firms with the officers providing oversight (Kelley and Dobbin 1998). Another indicator of the shift is the seeming increase in the number of companies who reward employees for making successful employment referrals. While this phenomenon applies mainly to workers at lower levels of the company, its use seems to be expanding into higher ranks of the organization. Again, this stems in part from a desire among HR managers to not only encourage practices that seems to result in better hiring decisions, but also to gain some

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degree of oversight and control over what is currently an ad hoc—and potentially discriminatory—informal process of hiring via employees' personal networks.

Recent studies by Fei Qin (2006) of the careers of highly educated Chinese in the Boston area seem to parallel the findings suggested by the TIE, Israeli and Latino organizational interviews—that social networks have become increasingly important over time. It appears that the pattern is one in which the Chinese immigrants come to the United States through formal channels to pursue higher education and their first jobs are found through formal channels as well, typically through the university placement offices. They develop social contacts with their compatriots only after they are in this country. The likelihood that they work with other Chinese or find jobs through Chinese contacts increases with the length of stay in the United States. There is some tendency for wages to be higher when jobs are found through Chinese contacts or involve work with fellow Chinese. The intention to return to China is also inversely correlated with the number of Chinese associates on the job.

On the employers' side, however, the incentives for increased reliance on social groups come in part from equal employment opportunity and the institutions which have grown up out of it. But they also come from the spread of "project-teams" as a form of work organization (generally see Bielby and Bielby 1999; Grabher 2002). This form of work has no doubt always been present to some degree. But it has largely gone unnoticed by labor market analysts in the past and is not reflected in the typologies of work found in the literature on segmentation and stratification. In this sense, it is "new". Thus, for example, in the French Conventionalist school of economics, it was not included in the original typology of *cites* but is the fulcrum of the new *cit * around which Boltanski and Chiapello (1999) build their argument in the Nouvel Esprit du Capitalisme. It is associated in the literature with the emergence of information technology, although it is found in industries which have no particular relationship to IT, such as investment banking. We have argued elsewhere that it is characteristic of product innovation in general.

The distinctive characteristic of project-teams is, as the name suggests, twofold. First, work is organized around projects which have a limited duration and involve a

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distinct progression of activity in time. In this sense, it is distinguished from the work organization thought typical of industrial societies in the tradition of Smith and Marx, which presumes a set of activities that are repeated regularly over time. Craft work, however, is very often organized in projects, and the second characteristic of project-teams distinguishes them from craft work as well. The work typically requires people with a variety of skills and experiences. But the skills and experiences are not necessarily well defined and standardized, as they are in craft production. Moreover, the people who possess them work together at the same time, and what emerges is best thought of as an amalgam of these differences rather than the progressive application of distinct bodies of skill and knowledge. Thus, this form of work can be contrasted to building construction, which is also organized in projects requiring a variety of different crafts, but the crafts work basically in isolation from each other, and following one after another as the project proceeds toward completion. The output of a building project, moreover, is well defined in advance, whereas the output of contemporary product-teams is often ill-defined or unknown. In this sense, innovative activity is paradigmatic.

At any rate, because the skill sets that this form of work requires do not consist of standard, well-defined skills, and because the team members must be able to work together in cooperation, hiring decisions require a great deal of idiosyncratic knowledge of a kind that can be obtained better through a social network than through standardized, impersonal institutional intermediaries. Because projects are typically of short duration and teams are continually disbanded and reformed, the amount of new hiring in this form of work is also considerably greater than in conventional industrial production (although probably not in craft-oriented industries such as building or entertainment).

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Preliminary Thoughts

We would emphasize the following particular characteristics of this process which we hope to explore further in subsequent research: First, many of the groups we have been studying are the outgrowth of the immigration, and in this sense, parallels the earlier literature on segmentation, where much of the focus was on immigrant groups. The groups of concern, however, were unskilled and often uneducated workers moving into low wage jobs which they found through informal social networks, and their position in the labor market was understood as the product of the limited research of these networks and the inaccessibility of the institutionalized recruitment channels which used the formal (and impersonal) educational credentials. Assimilation and upward mobility was therefore thought to be associated with access to the formal channels. All of this is called into question by the high wage immigrant groups which typically come into the U.S. labor market through formal institutional channels and develop and rely on informal social networks increasingly over time.

Second, the processes which we have been observing have a paradoxical and ironic relationship to the older labor market segmentation literature. That literature developed in the 1960's out of a concern for the labor market position of socially stigmatized and economically disadvantaged groups at the bottom of the labor market. The EEO policies that have legitimized these networks and fostered their institutionalization in the upper reaches of the labor market are the product of that same set of concerns. They have unleashed a set of forces which seem capable of segmenting a different sector of the labor market, albeit possibly in a less pernicious way.

Third, the other process underlying employer behavior, and reinforcing the effect of equal employment opportunity, i.e., the reorientation of work toward project-teams, seems likely to become stronger and more important in the economies of advanced industrial countries over time. Repetitive operations are easily mechanized, and those that remain appear in this age of globalization to be moving progressively toward low wage, less developed economies. High level problem-solving work is increasingly being performed by computers as well. This leaves behind the work of developing innovative

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products that typically involve the amalgam of different realms of knowledge, and it is here that project-teams seem most effective.

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