Introduction

Labor in the Era of Globalization

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Seen in the rearview mirror, the third quarter of the twentieth century was a golden age for labor in the United States, Europe, and Japan. Unemployment was low and earnings and employment growth were strong. Employment relations were shaped by an implicit agreement between employers and unions in which workers traded wage moderation for expanding employment opportunities. All was not "sweetness and light," to be sure. One must guard against idealizing the past and recognize that distance can distort. Recall the warning that graces the rearview mirrors on recent-vintage U.S. cars: "Caution: Objects may be closer than they appear." Still, it is not too much of a distortion to argue that the majority of workers in the United States, Europe, and Japan were confident that their economic circumstances would improve from year to year.

Sometime in the fourth quarter of the century, this situation began to change.[1] After President Ronald Reagan's firing of striking air traffic controllers, employer resistance to unions took off and the power of labor, already on a downward trend, went into rapid decline. In the United States, wages for male workers stagnated and health and pension benefits for many workers began to erode. In Japan, the winding down of miracle growth in the 1970s and then the onset of a decade-long

[1] For a more detailed discussion of the perspective presented here, see our recent works: Clair Brown et al., *Economic Turbulence: Is a Volatile Economy Good for America?*, University of Chicago Press, 2006; Barry J. Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond*, Princeton University Press, 2007; and Michael Reich, *Labor Market Segmentation and Labor Mobility*, Edward Elgar Publishing, 2008.

slump at the beginning of the 1990s challenged the system of lifetime employment. As growth rates slowed in Europe and joblessness rose, labor-market arrangements once lauded for their stability were increasingly disparaged for their rigidity. Although levels of unemployment varied with institutional arrangements and the cycle, there was a tendency toward higher joblessness in all three economies.

There was also more differentiation among workers. In the United States, a growing gap between white-collar earnings and stagnant blue-collar wages became increasingly apparent. In Europe, there was chronic unemployment, especially long-term unemployment, making it difficult for young people in particular to secure a foothold in the labor market. In Japan, the labor force was segmented between regular workers, who enjoyed employment security, career development, and salaries that rose with tenure, and irregular workers, who received low wages, had uncertain tenure, and received little training. More generally, there was evidence of widening gaps in earnings and job security between the more and less skilled, the white and blue collar, and the earlier and later cohorts. Labor-market conditions became more volatile, outcomes less predictable. Among the casualties of these changes was confidence that the typical worker's circumstances would improve from year to year.

Although the impact of these developments is most evident in the ranks of the less skilled, more skilled workers have not been immune to the effects, especially in the United States. Unprotected by union contracts providing seniority-based wage scales as in Japan or by job security as in Europe, experienced professional workers in the United States face a labor market that may not offer them another good job when their last one ends. As they age, many have taken jobs in which they receive lower earnings and fewer hours – in a revival of a pattern last witnessed in the nineteenth century.

What gave rise to this great unraveling? The obvious place to start is with the familiar list of the forces that were reshaping markets. This list begins with the onset of a new technological era that disrupted established industries, placed a greater premium on labor-market flexibility, and raised the returns to skilled labor while eroding returns to their less skilled counterparts. In the prototypical example, the robots increasingly used on motor-vehicle assembly lines undercut the demand for autoworkers while boosting the demand for those engaged in designing those robots and deciding how to deploy them. The result was the decline of secure, well-paid jobs on assembly lines and rising economic inequality.

A second popular suspect is globalization. As long as they remained sheltered from foreign competition, firms earned rents that could be shared with their workers. As declining transport and communications costs, successive global trade rounds, product market deregulation, and regional integration eliminated this shelter, forcing firms to compete on global markets, employers cut back on wages, health insurance, and other benefits in the scramble to survive. By the 1990s, workers in the advanced countries were competing with hundreds of millions of low-wage workers in China and other developing economies as these countries entered the global market. This significant change in global supplies of skilled and unskilled labor – for that is what China's emergence as the assembly platform for a wide range of manufacturers effectively entailed – plausibly had a negative impact on the employment prospects of less-skilled workers in the advanced economies.

A third explanation for the growing gap between skilled and unskilled workers focuses on their relative supply, especially in the United States. Until recently, the educational attainment of every generation of post–World War II Americans was higher than its predecessor; that is, relative supplies of skilled labor more or less kept up with demand. In recent decades, however, rates of growth of high school and college graduation tailed off. This could reflect underinvestment in early childhood public schooling, the growing gap between the costs of higher education and the financial resources of middle-income families, the dysfunctional character of many inner-city schools, or the special challenges facing specific socioeconomic groups. What is clear, for the United States if not also for Europe or Japan, is that a declining rate of growth of supplies of skilled labor translated into a larger skill premium and greater inequality between skilled and unskilled workers.

A fourth explanation focuses on the immigration of unskilled workers to the United States. The growth in the number of unskilled workers has been matched by an increase in the demand for such workers, many of whom are employed in "McJobs" in the service sector that pay less than the assembly-line jobs that have been lost. Here again, the comparison with Europe is revealing because Europe too has seen growing numbers of largely unskilled immigrants but not the emergence of significantly larger skill premiums.

However, if these four forces are the obvious place to start, they are not also the appropriate stopping point. Their impact is amplified or dissipated by institutions, norms, and culture in Europe, the United States, and Japan. Among other factors, differences in the prevalence of trade unionism, in the structure of financial markets, in education and training policies, and in tolerance for wage and income equality shape how their economies respond to the pressures described herein. Although union membership has been declining in much of Europe and Japan, the proportion of workers covered by collective-bargaining contracts has declined much less in some countries than in others. In Germany, works councils and collaborative apprenticeship and training programs continue to function even as the so-called Hartz reforms have scaled back labor-market regulation. Similarly, union membership has remained high in the Netherlands, Denmark, and elsewhere in Scandinavia as unions have assumed an expanding role in unemployment insurance and retraining programs.

The United States, for its part, has an advantage in the development and application of radical new technologies as a result of its well-developed venture-capital industry and world-class universities. Meanwhile, patient banks and collaborative training schemes have helped Europe to maintain its advantage in quality manufacturing. In the United States, social norms more tolerant of income inequality contributed to declining minimum wages and to the expansion of a lightly regulated financial system (e.g., witness the growth of the hedge-fund industry with its 2 + 20 compensation scheme, where fund managers receive a fee of 2 percent of the amount invested and 20 percent of the returns) as well as to U.S. corporate governance arrangements with high-powered incentives for CEOs, leading them to focus on the current quarter's bottom line. In Europe, in contrast, there has been an effort to update Social Democratic corporatism with its emphasis on high minimum wages, limited inequality, and living wages to meet the need for greater mobility in the twentieth century. The case of Danish "flexicurity," in which job protections were radically scaled back but workers were still offered generous support – including in the form of retraining schemes – is a reminder that institutions, although influential, are not set in stone; they respond to changing circumstances.

There is no consensus on the relative importance of these factors in explaining recent trends in labor markets and industrial relations. This is not surprising, not least because the same factors have operated with different degrees of force in different economies. They have been superimposed on different prior conditions. It follows that analysts whose views are informed by the experience of different countries reach different conclusions. Another explanation for the absence of consensus is a fundamental identification problem. There are multiple hypotheses but only one data point.

If we are to have any hope of distinguishing the effects of these four categories of explanation, comparative and historical analysis is essential. International comparisons exploit the variation across countries in the facility with which economies develop and adopt new technologies, in the readiness with which they expose themselves to the chill winds of international competition, in their educational systems and outcomes, and mostly in their institutions. Persistent differences are evident along all four dimensions, reflecting the operation of deeply rooted historical and cultural factors. It is this comparative approach that is offered in this volume.

The essays in the four parts of this volume were originally presented at a conference in honor of the labor and industrial relations specialist, Lloyd Ulman. This is appropriate because Ulman's work is fundamentally comparative and historical. Over the years, Ulman has made important contributions to the literature on labor markets and industrial relations in the United States, Japan, and Europe. He has emphasized the importance of institutions, including but by no means limited to collective bargaining, for economic outcomes. Not least among the institutions he has discussed are the institutions of economic policy making – Ulman having himself done influential policy-relevant work while on the staff of the Council of Economic Advisors. Also notable among the institutions he has emphasized are institutions of higher learning, much of his influence having been conveyed by his students.

Part I of this volume speaks to all of these themes. In Chapter 1, Frank Levy and Peter Temin emphasize the role of institutional arrangements – growing out of social norms, expectations, and technology – in shaping distributional outcomes in the United States in the second half of the twentieth century. They frame the story of those arrangements as an implicit agreement among unions, employers, and government that provided the basis for shared growth after World War II. They label that implicit agreement the "Treaty of Detroit" after a tripartite conference held in 1945. Levy and Temin argue that this social pact reflected memories of high unemployment in the 1930s as well as the expansion of the state that began with the New Deal. Supported by an expanding welfare state and buttressed by a generous minimum wage, the Treaty of Detroit ensured that the gains from growth were widely shared. It was an agreement under which labor allowed management to control production and investment decisions, surrendering control over job assignments and the introduction of new technology, in return for cost-of-living increases and fringe benefits ensuring that labor would share fully in the resulting productivity increases.

Implicitly, Levy and Temin are comparing the United States with Europe, for which it similarly has been argued that the postwar golden age was supported by an agreement between capital and labor to go for growth. As in Europe, there was a tendency for the Treaty of Detroit to unravel over time as the compromises and understandings of the postwar period eroded in the face of globalization, deregulation, and skill-biased technical change. However, the legacy of the postwar social compact was enduring. Levy and Temin emphasize the long shadow of the decision to collectively pursue high investment, rapid growth, and an equitable distribution of income in the face of challenges from globalization, deregulation, and technical change. Thus, the authors do not deny the role of such factors in shaping labor-market outcomes, but they argue that how they played out must be understood against the backdrop of the postwar settlement and its subsequent development.

David Soskice is also concerned with American exceptionalism, which he analyzes comparatively in Chapter 2. A substantial literature already attempts to explain "why there is no Social Democracy in the United States" and why such an advanced economy underperforms on social indicators including crime and punishment, inequality of education, distribution and redistribution of income, and labor rights. Soskice shows that American outcomes are exceptional even given the country's institutional arrangements. In fact, its socioeconomic institutions are not dissimilar from those in other so-called liberal market economies (i.e., typically, other settler economies in which guild systems were absent and political decision making was heavily decentralized in the nineteenth century). However, the United States still stands out on any number of social indicators.

With a perspective emphasizing political systems, Soskice supplements accounts emphasizing differences in labor relations; financial structures; and labor, capital, and product market regulation. Majoritarian political systems like that of the United States, he argues, tend to produce center-right governments that afford business an influential role in economic legislation and regulation. This is in contrast to proportional representation – that is, consensual political systems of coordinated market economies in which there is more tendency to move to the center-left, reflecting labor's political leverage. However, even within the class of majoritarian systems, there are important differences among countries. In particular, the American system of weak party discipline and decentralized decision making enhances the leverage of business. It does this in part by accentuating geographical sorting – by allowing businesses to move to where the economic climate is most congenial. The broader implication of Soskice's analysis is that comparative institutional analysis should not be limited to the economic aspects but rather should encompass political institutions as well.

In Chapter 3, Sanford Jacoby similarly highlights the importance of politics and political institutions. Previous analyses comparing distributional outcomes across countries emphasized the role of financial development and structure. Where capital is mobile, it possesses an exit option; it can move to low-tax states, as in the U.S. case that is Soskice's focus, or to low-wage countries in the context of globalization. This puts downward pressure on rates of capital taxation and results in redistribution away from labor, other things being equal. These mechanisms can help to explain why there has been a distributional shift away from labor in some countries in recent years and why, in Levy and Temin's case, the Treaty of Detroit has broken down – or so it is suggested. Jacoby argues, however, that capital mobility is not an inevitable corollary of financial development and the forward march of information and communications technology. In fact, the decision to liberalize financial markets is political. In turn, this implies that there may be significant political limits on the process.

Utilizing historical, comparative, and contemporary evidence, Jacoby shows that the relationship between finance and labor markets in general and the impact of capital mobility and financial competition on industrial relations in particular are mediated by politics. Depending on the capacity of the affected to mobilize, politics can set in motion countervailing forces that limit the impact of capital mobility and the pressure to produce financial results on inequality, risk, and other social indicators. Jacoby compares the coordinated economies of Continental Europe and Japan – where labor has been able to build coalitions in support of its efforts to shape firms' capital-allocation decisions not only on the shop floor but also in the board room and the legislature – with the liberal U.S. and UK market economies – where labor has found itself isolated and less successful at pushing back politically. The result has been different distributional outcomes but not, revealingly, differences in aggregate economic performance.

The three chapters in Part II consider how institutions, social norms, and political forces shape employment systems and work situations. Chapters 4 and 5 paint contrasting pictures of employment relations in the United States and Japan, respectively. American employers operate in a labor market characterized by relatively high levels of worker mobility and employment flexibility. Firms are free to hire and fire unhindered by regulations mandating severance pay, and workers are free to move from job to job in search of better prospects. Labor-market mobility is supported by regulations providing unemployment insurance for those who are laid off and social norms that do not stigmatize an employer or worker when layoffs occur.

Japanese employers, in contrast, operate in a labor market characterized by less worker mobility and more employment security. Social norms place a high value on lifetime employment while frowning on workers who disdain company loyalty. Unemployment insurance is structured to encourage companies to retain workers, not separate them. New hires by major Japanese companies are mostly new graduates, reflecting social norms; regular workers tend to remain with their initial employer for most of their working life.

Brown et al. and Nakata and Miyazaki suggest that both American-style mobility and Japanese-style employment security have costs as well as benefits. American employers cannot count on retaining their experienced workers. Japanese firms cannot shed employees whose performance falls short or easily hire experienced workers with specific skills. That said, both the American and Japanese systems afford employers more control over their workforce than might be expected. In Chapter 4, Clair Brown et al. document how workers with comparable education and experience can find themselves on very different job ladders in different firms in the same industry. Some employers retain selected workers by rewarding them with jobs that provide career development and earnings growth; others rely more on finding the skills they need through continual new hires. Job ladders vary across as well as within industries. Industry characteristics such as union density, market concentration, technological change, government regulation, and global competition matter, and these characteristics (except global competition) correlate with good job ladders.

In Chapter 5, Nokata and Miyazaki show that Japanese companies have increased their flexibility while still maintaining lifetime employment for their regular employees by increasing their reliance on nonregular workers, also called temporary or contract workers. Regular workers still enjoy employment security, career development, and salaries that rise with tenure. In contrast, temporary workers, who tend to be women, occupy jobs characterized by low wages, uncertain tenure, and little training. In the past decade, growth in nonregular employment has accounted for most of the growth in Japanese employment. A detailed review of autos, electronics, and wholesale and retail trade shows that these industries have come to rely more on temporary workers, mainly women, as part of the effort to lower labor costs and increase the ability to adjust employment. These benefits to firms obviously are not without costs to the workers. Specifically, the shift to nonregular female workers worsens the relative position of female workers in a period when Japan has been seeking to improve the jobs available to them. These changes also mean a less skilled workforce, which constrains the ability of firms to address product-quality problems.

Social norms also play a role in shaping workers' family-formation decisions. In Chapter 6, Paola Giuliano argues that those norms and not simply economic circumstances explain differences in living arrangements, marriage patterns, and fertility rates between Southern and Northern Europe. Attitudes about family ties in Mediterranean countries differ from those elsewhere in Europe. Family ties in Southern Europe are strong; children born there often choose to live at home. In Northern Europe, in contrast, children leave home to establish their own families; they have higher fertility rates. In the South, the prolonged stay of children in their parents' home correlates with the children's care of their aged parents. In the North, in contrast, children are expected to separate themselves from their parents and the parents do not expect to rely on their children for support in old age. Giuliano finds striking replication of European living arrangements and marriage and fertility patterns in the United States, which suggests a major role for culture in the determination of demographic trends in Western Europe.

The focus in Part III on labor–management relations is again comparative. In the United States, union-membership rates have been declining, with an ever smaller share of workers covered by collective-bargaining agreements. Unionized industry faces formidable challenges, not simply because of international wage differentials but also because employee health insurance and retirement costs weigh increasingly on employers. Although union membership has also been declining in Europe (particularly in large European countries), the share of workers covered by collective bargaining has declined much less. In countries such as Germany, works councils and collaborative apprenticeship and training programs continue to function even as the Hartz reforms have scaled back labor-market regulation. In the Netherlands and Scandinavia, in contrast, membership rates have risen: unions have assumed an expanding role in retraining programs as job protections have been scaled back. The Danish policy of flexicurity, in which workers are protected but jobs are not, is touted as a successful approach to reconciling egalitarian values with the imperatives of twenty-first-century global competition.

Part III analyzes the responses of organized labor in this challenging environment. In Chapter 7, Teresa Ghilarducci describes how U.S. autoworkers and companies are restructuring health and retirement entitlements to meet international competition. The vehicle (as it were) for this restructuring is the Voluntary Employee Benefits Agreement (VEBA). Labor and management share funding costs, reflecting an awareness that high-quality jobs and the survival of the U.S. auto industry are at stake. Whether this approach will succeed in providing retirees with their anticipated level of benefits while limiting the drain on company coffers and meeting foreign competition is yet to be seen. The answer may turn on events beyond the control of American auto companies and workers, ranging from the demand for cars and trucks to the possibility of national health-care reform in the coming years. At the same time, VEBAs might also provide unions with a new role and help to advance national health insurance.

In Chapter 8, Robert J. Flanagan argues that unions can remain strong and maintain their traditional role even in an industry – in his example, symphony orchestras – that has experienced substantial decline. Since the late 1960s, collective bargaining has transformed the artistic expenses of orchestras from variable to fixed costs by providing wage and employment guarantees, in turn limiting the ability of orchestras to adjust labor costs in the face of financial challenges. Flanagan's evidence suggests that musicians' wages are not significantly affected by their orchestra's financial balance. However, in other industries, where international competition is even more intense (e.g., motor vehicles), unions have been forced to contemplate radical measures to survive.

In Chapter 9, Knut Gerlach and Wolfgang Meyer then examine whether establishment-based works councils mandated by German law have assumed some of the prior functions of national collective bargaining as the latter has eroded in recent years. Works councils in firms covered by a collective-bargaining agreement could be more productivity oriented and less focused on rent sharing than their counterparts in uncovered plants insofar as distributional conflicts are resolved by a collective-bargaining contract at the industry level. However, Gerlach and Meyer find that the impact of works councils on wages is stronger for firms covered by collective-bargaining agreements and weaker in uncovered plants. Thus, the slow erosion of industry-wide bargaining in an economy with high and persistent unemployment has increased the