

**Income and Social Security
and Substandard Working Conditions**

Working Under Different Rules. Edited by Richard B. Freeman. New York: Russell Sage Foundation, 1994. 224 pp. ISBN 0-87154-277-3, \$14.95 (paper); 0-87154-276-5, \$39.95 (cloth).

Use of the international comparative method to improve understanding of domestic trends is undergoing a revival. Notable in this important endeavor is a National Bureau of Economic Research (NBER) project under the direction of Richard B. Freeman to commission comparative studies in labor economics. Unlike earlier comparative research, the NBER project emphasizes use of data sets and econometrics. This volume is a summary of the NBER-sponsored studies, with chapters by authors of that research. Members of the American Economic Association will understand when I say that its chapters are written in the non-technical format of the *Journal of Economic Perspectives* rather than in the more detailed style found in the *Journal of Economic Literature*.

There is a spectrum of thought running from a pure market perspective (call it point "1") to pure institutional determinism (point "10"). The former is characterized by belief that market forces dominate while cultural and institutional arrangements are mere veils. In the international context, this view implies that globalization has made the nation state obsolete. The same things happen everywhere; a kind of law-of-one-price that renders comparative research of little value. In contrast, the latter view presumes that national institutions determine all outcomes and that market forces are just abstractions of economic theorists.

This book declares itself to be somewhere in the middle of the ideological spectrum, but who isn't? The middle ground is dubbed SDI for supply-demand-institutional. Like the Strategic Defense Initiative with which it shares an acronym, SDI is appealing as a general idea—a protection from attack by intellectual extremists—but uncertain in application. I would characterize the book's position as 7 or 8 on the one-to-ten spectrum, leaning toward a static institutionalism. Readers should therefore be forewarned that I would put myself at the 4-5 position, that is, a tendency to see market forces pushing toward similar results but with long lags caused by institutions.

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Europe is the hero of the drama with its institutions and laws resisting market forces that would otherwise lead to growing wage inequality, inadequate company training, and insufficient employee voice. The United States with its wage slippage of the unskilled and declining unionization is the damsel waiting to be rescued. Japan is mentioned but is a minor character. Since we have basically a two-character play, Canada is part of "Europe" and Britain is part of the United States. A footnote at the beginning of Chapter 2 says that the views expressed are not those of the U.S. Department of Labor. Perhaps. But they are clearly those of the northeast and Wisconsin academics who have emerged as advisors to the Labor Department and Dunlop Commission. (Whether the Clinton administration's political advisors would be receptive to the mandates suggested in this volume is another matter.)

I plan to put this volume on class reading lists, but in discussions with students I will point to three problems with its approach. First, there is an implicit assumption that European institutions, which have resisted the world market forces that have influenced the United States since the 1970s, can continue indefinitely to do so. An alternative interpretation is that European institutions produce a considerable lag in response—perhaps 10 to 20 years—but that for good or ill Europe will catch up. Second, there is an insistent downplaying of the possibility that U.S. institutions permitted a faster rate of employment growth compared with Europe in the 1970s and 1980s, a "protesting too much" that European institutions do not cause employment sluggishness. Third, and related to the second point, there is a serious omission in this volume: it badly needs a chapter on comparative labor-market macroeconomics.

Given the concern about aggregate employment trends, there should be intensive discussion of wage/price dynamics, determinants of unemployment, and so on. If the costs of European social protections were shifted to labor (lower take-home pay to cover the costs), employment would be unaffected as a first approximation. But this question of cost incidence is closely linked to macro wage determination processes that need fuller analysis.

In a short review, I cannot do justice to the individual chapters. But here are some critical questions to be asked. Chapter 1, an overview by Freeman, notes with regret that America is no longer the world's real wage leader. Now the United States is somewhere in the pack of economically advanced countries, depending on

measurement. But with lower import barriers, an increasing volume of world trade, and spread of technology, isn't this leadership loss what economic analysis would predict? Chapter 2, by Freeman and Lawrence Katz, attributes much of the U.S. rise of relative wage inequality to declining unionization. But perhaps the causal arrow is reversed. Forces that produced blue-collar wage slippage could also cause reduced unionization.

In Chapter 3 on training by Lisa Lynch, there is naturally much focus on the German apprenticeship system. As Lynch notes, the German system assumes that workers need training only at the beginning of their careers. But there are reports that more German students are choosing the high-school-to-university track found in the United States. Perhaps they believe that the market for once-trained blue-collar technicians will not be as buoyant as in the past.

Joel Rogers and Wolfgang Streeck extol mandated works councils in Chapter 4. The councils raise productivity and enforce labor laws. But how do we square this conclusion with behavioral research in the United States suggesting that employee participation "works" only when management is committed to it? How committed would U.S. managers be to councils created by fiat?

Chapter 5 by Rebecca Blank deals with the employment-social protection trade-off. As noted earlier, a key question here is that of the incidence of social costs on wages. Chapter 6, by David Card and Freeman, compares the United States and Canada, countries with relatively small institutional and legal differences. The goal is to show that seemingly minor differences can produce divergent outcomes. Unionization is viewed as one of these divergent outcomes, although a chart on p. 200 suggests that in the 1980s Canadian unionization declined. One wonders whether knowledge of the recent rash of Canadian concession bargaining might have pushed the authors toward the view that Canada is lagging behind earlier U.S. developments. And there is also the issue of widely divergent outcomes within the United States—for example, unionization in New York versus South Carolina—despite a common legal system.

The book concludes with a policy implications chapter by Freeman. U.S. policy-makers should enhance the safety net, stimulate more company training, and encourage worker participation, perhaps by mandate. Despite my critical comments, I am sympathetic with many of the ideas put forth. My point, however, is that

the conclusions are not of the QED variety; rather, they are informed but subjective opinions. Others—looking at the same data—might easily differ. The book's strength, in fact, is that enough information is presented to make it possible to question or disagree with the conclusions.

Daniel J.B. Mitchell

Professor
Anderson Graduate School of
Management