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America Works: Critical Thoughts on the Exceptional U.S. Labor Market.

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Industrial Relations Theory

America Works: Critical Thoughts on the Exceptional U.S. Labor Market. By Richard B. Freeman. New York: Russell Sage Foundation, 2007. 136 pp. ISBN 978-0-87154-283-0, \$19.95 (cloth).

This book provides a review of the past three decades of labor market change in the United States. Richard Freeman is always a lively thinker and writer, and this book reflects his talents. It is his answer to the question of what happened in the U.S. labor market during a period of high employment but widening wage inequality.

Throughout the book, Freeman compares the U.S. labor market to European labor markets during the same period. As he shows, the U.S. labor market is far more market-driven, with less regulation and greater mobility of workers across jobs and in and out of employment. This greater labor market flexibility is the reason for stronger employment and productivity growth in the United States, according to Freeman. The strong U.S. labor market was helped by the influx of women and immigrants, as well as the expansion of computer technologies.

But the news is not all good. Even with a strong macroeconomy and low unemployment, overall productivity gains did not translate into wage gains. While highly educated workers have enjoyed large wage increases, most workers, and particularly less-skilled workers, have experienced stagnant or falling wages. Freeman reviews the many factors behind this widening wage inequality, from changing skill demands and increasing globalization to changing policies around unionization and minimum wages. He clearly believes all of these factors had an effect on U.S. inequality, and goes on to emphasize the institutional differences between the United States and Europe. European nations with more centralized collective bargaining experienced little widening of inequality over the same period.

The result of these changes has been a shift in work behavior among Americans. Hours of work have risen sharply among more educated workers but have fallen among less-skilled workers. This is exactly what one would expect given differential growth in the returns to work among more- and less-skilled workers.

Freeman emphasizes three phenomena that he

thinks are particularly important for understanding these changes: the decline in unionization, the role of management in capturing greater rents over time, and the expansion of the global labor market due to the entry of Eastern Europe, India, and China as participants in the world economy. Offsetting these changes, he argues, are some labor market policies that helped workers retain earnings and employment, such as the expansion in the Earned Income Tax Credit and the work-oriented welfare reforms of the 1990s.

There is much to like in this book. It provides a readable and informed discussion of a set of complex issues that the economics profession is still trying to understand. There are, however, a few gaps in the analysis.

My biggest complaint is that Freeman spends far too little time discussing the policy implications of these changes. His last chapter, only seven pages long, goes through twelve policy prescriptions with only one to two paragraphs on each topic. After such an extended discussion of the problems facing the U.S. labor market, a reader expects someone of Freeman's stature to have more to say about how to deal with these problems through public and private sector changes. I would have liked to know more about how to prioritize this policy list, based on considerations such as expected impact and political feasibility. I also would have liked to hear more about areas where Freeman thinks these labor market changes are permanent and inevitable, versus areas where there are possible policy responses that might "undo" some effects of rising inequality.

Interestingly, despite extended comments on the problems of declining worker representation and voice in the United States, Freeman says very little about policies that might slow this decline. While he calls for alternative forms of worker representation, exactly what this might mean is left very vague.

One conspicuously under-discussed topic in the book is the role of women in these labor market changes. While Freeman notes expanded female labor force participation in passing, this was a primary force behind increases in employment over the 1970s, 1980s, and 1990s, and a reason why widening wage inequality did not lead to falling incomes. These changes suggest that family-friendly policies are of growing importance, including public sector actions such as the Family and Medical Leave Act as well as private firm policies that allow parents to effectively balance

their family and work life. These issues are largely unmentioned in this book.

Freeman is particularly interested in changing incentives in the labor market. Only the highest-earning and most-skilled workers gained from the productivity growth of the past decade. Freeman argues that this is not an optimal incentive system and that greater productivity gains would accrue if more workers thought that hard work would bring them greater rewards. This is an interesting argument and suggests that greater productivity is possible in the U.S. labor market. I would have liked to hear more about how the private sector or public policy might go about implementing wage or tax schemes that shift incentives in this way. Freeman persuades me such changes would be good, but is less helpful in suggesting exactly what this might mean on the ground for compensation schemes.

But these are the complaints of someone who liked the book and wanted even more. Economists who know this literature will not find much that is new in *America Works*, but may find it interesting to see how Freeman fits together an explanation that encompasses labor market trends, private sector behavior, and international comparisons. For teachers, this is an excellent book to give to an undergraduate or a non-labor economist who wants to understand some of the major labor market trends and issues of the past 30 years.

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The Firm as a Collaborative Community: Reconstructing Trust in the Knowledge Economy. Edited by Charles Heckscher and Paul S. Adler. Oxford: Oxford University Press, 2006. x, 592 pp. ISBN 978-0-19-9286035, \$125.00 (cloth); 978-0-19-9286043, \$55.00 (paper).

This is a heroic work by contemporary standards. Not only does it mount a wide-ranging argument connecting many contemporary changes, but, despite its great length—500+ pages (600 counting the index), with a modal chapter length of 50 pages—it is exceptionally well-integrated, in stark contrast with many edited collections these days. The approaches adopted by the different contributors fit together extremely well. This is owing in good part to the fact that the book's editors—either together, separately, or with other authors—were directly involved in the production of nearly 40% of the text. The contributors

clearly had the opportunity for extended consultation with the editors, making for just the kind of collaborative community the book sets out to describe. The result is a highly integrated volume that ties together a wide range of subjects in way that would be well beyond the means of any single scholar. The analysis is sustained and penetrating. Whether or not its theoretical contribution turns out to be accepted as of enduring value, this is a significant contribution to contemporary scholarship and a model for good practice.

The book is organized into four sections. The first, comprising three chapters, is mainly conceptual. The tone of the entire book is set by the first, nearly 100-page essay. In it, Adler and Heckscher argue that there is a long-term tendency toward the emergence of what they call the “collaborative community,” which is a distinct departure both from the “traditional community” (described by Marx as “rural idiocy”) and from what these authors call “community in the shadow of the market,” which has been viewed for well over a century—at least since the time of Ferdinand Tönnies, the late-nineteenth-century political scientist—as the antithesis of community properly so called. Adler and Heckscher's searching analysis highlights the considerable shortcomings of these two earlier types of community, shortcomings that (they argue) are largely resolved by the emergent collaborative community. That form, they further maintain, will eventually supersede both of the others.

If the new form of community is so important, why has it not been recognized before? One reason implied by Adler and Heckscher is that the course of its development has not been direct. Not only has the main site of community moved from civil society to the economy, its development has not been linear. They argue that there is a “zig-zag path” toward higher levels of community because the process of socio-economic change is periodically ruptured by “laissez-faire transitions” in which capitalist priorities inconveniently reassert themselves. Although the emergence of the collaborative community thus sometimes drops out of sight, over the medium term it is discernible, and over the long term it will become clearly manifest. So it is (the authors argue) that we stand on the threshold of a new era of collaborative community. If that is the case, and the already well-canvassed models of other social theorists suggesting an increasing movement away from an economy based principally either on hierarchy or on the market as the organizing principle, toward the realization of a new economy based on trust, are also accepted, then there is the basis of a case for significant change. Inchoate forms of that new