Last Year's Model? Reflections on the American model of employment growth

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Introduction

Throughout the 1990s (and before the economic tribulations of 2001 and 2002) the American economy was a source of adulation and envy. The stock market demonstrated unprecedented growth, corporate profits surged to double digits as a percentage of national income, and unemployment fell to its lowest point in 24 years (Business Week, September 29, 1997, p.3546; Bernstein, September 7, 1997; Commission of the European Communities, 6/93, pp. 11, 40). These features of economic life prompted all sorts of congratulatory self-adulation in the business press; for example, Business Week (May 19, 1997) described it as the “wonder economy.” These successes also prompted recommendations to languishing European economies regarding the adoption of flexible work regulations, social benefits systems more conducive to job-seeking, and tax incentives for corporate investment (OECD 1997a).

The varieties of capitalism literature classifies the USA as a classic liberal market economy (LME), in which firms’ competitive strategies and general employment growth rely on low-wage, low-skilled jobs. This model contrasts with coordinated market economies (CME), in which companies compete in market segments that rely on highly skilled workers and derive economic advantage from human assets and institutional coordination. Analysts in this tradition assert that in CMEs, employers, workers and the state all set a high priority on competitiveness in world markets and develop collective organizational mechanisms to enhance their export position in the areas of wage negotiations, training, research and development, and setting product standards. Thus, a relatively developed welfare state and system of worker skills development are viewed as essential to the functioning of the economy (Estevez-Abe, Iversen and Soskice 2001). According to the model, LMEs have traditionally had less open economies and are less likely to pursue profits through high-skilled production; indeed, LME employers derive profits by squeezing rather than by cooperating with organized labour and...
This essay calls into question the model characteristics of the US economy, as well as the imputed lessons from this uneasy stereotype. By analyzing the performance of the American model in the latter part of the 1990s, this chapter reflects on the broader questions of the volume as a whole: How well do national economies fit their models, and do the models represent the aggregated strategic choices of individual firms, as Hall and Soskice suggest? Do governments that follow model prescriptions, in fact, fix their economies? Or are economic improvements usually a matter of reverting to trend? At the end of the day, what normative lessons can we derive from the experiences of different models?

Three issues complicate the lessons one might adopt from the American experience. First, a fundamental characteristic of the American economy is its duality, a fact that complicates its easy synthesis and normative value. While its characterisation as a liberal market economy is largely true, the American economy contains many highly productive sectors that resemble those found in coordinated market economies. A stylized view of the USA as a bastion of low-skilled competition is consistent with data revealing a huge share of new jobs in the least-skilled sectors; in addition, low-skilled employment has certainly been driven by the lack of regulatory constraints and low wages found in the liberal market economy. Yet the model seems incompatible with the productivity gains found in high-end manufacturing sectors in the 1990s; indeed, the enormous productivity growth in high-skilled employment occurred despite rather than because of the liberal model. In addition, the focus on manufacturing by scholars writing in the varieties literature tends to neglect the critical contribution of service sector productivity growth to the American economic surges of the decade.

Second, the literature implies that the absence of certain types of public policies reflects the logical dictates of the economic system and the desires of employers in that system, yet many American managers strongly regret the absence of cme-type policies fostering greater coordination. According to the varieties literature, national policy both shapes and is shaped by employers' strategic choices: firms' chosen avenues of competition influence the set of public policies favored by employers. Thus, by characterizing the USA as an LME, the literature implies that managers are happy with the low levels of coordination in skills development. Yet many American employers compet-

An American success story

There is no disputing that the US economy has been a veritable powerhouse for much of the past decade and a half in the areas of GDP and employment growth (see Tables 1.1 and 1.2). While growth of real GDP averaged only 2.2 percent from 1988 to 1998 in OECD Europe and jumped to 3.5 percent in 2000, GDP grew on average an annual 2.9 percent in the USA and jumped to 5 percent in 2000 (OECD 2001b, 12). Well-paid American women have especially made great gains in employment in relation to their counterparts in Germany, France or the Netherlands; indeed, two-thirds of employment growth for women between 1979 to 1996 occurred in the income levels that were at least one-and-a-half times the income average (Salverda et al. 2001, p.12).

Productivity growth rates also started increasing again in the last half of the 1990s after being nearly flat for two decades: productivity grew on average 2.9 percent during the last 5 years, and the trend has even continued during the recent recession (Mandel 2002a). Productivity has grown even more in service sectors such as the retail industry (Koretz 2002). The USA has continued to grow faster than other advanced industrialized countries.
in terms of output per employed person in the manufacturing sector (see Table 1.2).

The great strides in GDP growth were matched by rapid gains in employment (see Table 1.2). US employment grew on average at an annual rate of 1.3 percent from 1988 to 1998, and another 1.3 percent in 2000, while employment grew on average annually 1 percent in OECD Europe with another 1 percent in 2000 (OECD 2001b, 14). Much of this expansion in employment occurred in high-wage, high-skilled jobs; indeed, the OECD reports that the US has a "job surplus" in highly skilled positions, or more of these jobs than the OECD average (OECD 2001b, pp. 107-8). Since 1979, skills have been an important source of productivity growth in the US economy, due to a change in the mix of narrowly defined occupations within many sectors. For example, skills growth in the service sectors occurred as clerical jobs gave way to more professional occupations. Between 1989 and 1997, skill levels as a whole across the economy increased about 1.1 percent, with a 0.2 percent rise in goods and 1.4 percent increase in service sectors, and occupations with higher skills have been growing at a more rapid rate than the average occupational growth (US Department of Labor 1999, pp. 41-48).

The rapid productivity growth of the 1990s enabled wages to increase, again after a two decade hiatus: between 1991 and 2001, private sector workers' wages increased on average a 1.3 percent per year, as opposed to 0.2 percent per year during the prior decade, and between mid-1997 to 2001, the annual growth rate in real wages was 2.1 percent. Even wages for blue-collar workers rose by 12 percent during the 1990s (Mandel 2002b). Household incomes for couples with children have gone up even faster than hourly wage rates, albeit at a price: work effort has increased by 367 hours per year (Becker 2001c).

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\hline
\text{Country} & \text{Annual poverty rate (percent)} & \text{Poor at least once (percent)} & \text{Always poor (percent)} & \text{Permanent income poverty (percent)} \\
\hline
\text{USA} & 16 & 23.5 & 9.5 & 14.5 \\
\text{ECHP average*} & 11.7 & 19.2 & 3.8 & 7.9 \\
\text{France} & 9.6 & 16.6 & 3.0 & 6.6 \\
\text{Germany} & 12.1 & 19.2 & 4.3 & 8.1 \\
\text{Netherlands} & 7.8 & 12.9 & 1.6 & 4.5 \\
\text{UK} & 12.1 & 19.5 & 2.4 & 6.5 \\
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* ECHP = European Community Household Panel
Data taken from oecd, Employment Outlook, 2001b, p. 45.
workers, employees need to have programs for education and training available to them. Yet US firms spend comparatively less on training than many industrialized countries: only 1.2 to 1.8 percent of total employee compensation (Office of Technology Assessment 1990, pp. 3, 15). Less than 10 percent of all US companies do most of the spending of the $30 billion a year on training, and according to some, most of this is spent on executives and managers (Stanfield 1992). Training in the USA also tends to be more heavily concentrated in job-specific efforts, which are less transferable to new jobs and skills than more basic skills development (Lynch 1994). Some 40 percent of young Americans receive additional training after high school, compared with 75 percent of German youths (Lynch 1993, p. 251). The community college system has increasingly become a source for post-high school technical training, and many pin high hopes for the future on this development.

Although the American model offers many benefits to those with the requisite skills, individuals and families without adequate training, good jobs and sufficient resources are reduced to a level of impoverishment seldom seen in other advanced industrial nations. The annual poverty rate (i.e., those who are poor all year) is much higher in America (at 16 percent in 1993-95) than in Germany (12 percent), France (10 percent) or the Netherlands (8 percent). Americans are also more likely to slip into poverty at least once over the course of the year – nearly a quarter (24 percent) were poor at one point as opposed to 19 percent in Germany, 17 percent in France and 13 percent in the Netherlands (see Table 8.1). The proportion of those who are among the poorest with an annual income of less than 50 percent of the median income is also quite high in the USA compared with elsewhere. Differences in the gender distribution of the poor are also quite pronounced on the two sides of the Atlantic: women are much more likely to be always poor than men in the USA but only somewhat more likely among European countries. Changes in family status such as divorces or births caused people to slip into poverty 40 percent of the time in the USA but only 25 percent of the time in European countries (OECD 2001b, pp. 45-52).

The skills shortage is partially responsible for the growing gap between rich and poor. Whereas in 1970 male college graduates earned 36 percent more than high school graduates, today a college degree offers on average a 62 percent lead in earnings over a high school education (U.S. Department of Labor 1999, p. 56). Just as the USA enjoys a surplus in high-pay/high-skills jobs, the economy has a surplus in low-pay/low-skills employment with a job deficit in the mid-range category (OECD 2001b, p. 107). The welfare-to-work reforms of the 1990s have done little to enhance the skills of former beneficiaries, despite improvements in employment. Although the legislation has been successful in pushing many beneficiaries back into the labour market: the number of caseloads fell by 50 percent, from 4.4 million families in 1996 to 2.2 million by June 2000 (General Accounting Office 2001, p. 3). In addition, not all of this employment gain can be credited to the economy, as strong economic growth in the last half of the 1980s failed to produce a comparable decline (Haskins 2001). Yet sceptics doubt that the reforms have significantly improved the lives of welfare beneficiaries. According to a General Accounting Office study, 60 percent of the TANF recipients continue to be unemployed despite enormous pressures to take jobs. Of the hard-to-place individuals, 30 to 45 percent lack a high school diploma, 20 to 30 percent lack job skills, and 20 to 40 percent have health problems or a disability (General Accounting Office 2001, pp. 5, 16).

Beneficiaries exited the welfare rolls much more slowly in urban areas: the top 89 urban counties have 33 percent of the population but 58 percent of the welfare beneficiaries (Katz and Allen 2001). Poverty has not declined with the shrinking of the welfare rolls: Sawhill (2001) estimates that over 700,000 families were worse off in 1999 than in 1995. Those in the poorest quintal of singles saw their annual income drop by 4 percent from 1995 to 1998 (Cohn 2000). Removing poor families from the welfare rolls has made them ineligible for health care and other government benefits: poor families lost 40 cents in benefits for every dollar they gained in earnings. Between 1993 and 1999 the child-poverty gap (the amount needed to bring all American children above the poverty level) only decreased from $59.8 billion to $56.3 billion (The Economist 2001). The much-feared “race to the bottom” dynamic has not transpired since the implementation of the bill; however, the legislation has stopped far short of solving poverty, and many families who need help do not seem to be getting it (Nathan and Gais 2001).

The American model

The models literature might argue that the dynamics described above are exactly what one would expect to find from a liberal market economy: employment growth through low-wage jobs, radical innovation in high-tech spheres, and polarisation between rich and poor. This section presents the LME model and explores how it might account for the American economic
The varieties of capitalism literature presents a stylized view of the American model as the classic liberal market economy. With regard to financial systems, firms raise investment funding from the stock market. Consequently, corporate decision-making is leashed to a shorter time perspective, a tyranny that can lead to the likes of the Enron and Worldcom accounting scandals in which books are juggled to assure stockholders. In the domain of inter-company relations, US anti-trust law designed to prevent cartels and collusion has also inhibited the growth of collaborative sector associations, close vertical links between producers and suppliers, and other forms of industry coordination. Technology transfers in this model occur formally through licensing and informally through employee relocation within the industry (Hall and Soskice 2001).

### Industrial relations system

Important to our discussion here is the classic industrial relations systems of the LME model, characterized by limited and fragmented unionisation, little wage coordination, contentious and unstable relations between employers and workers, few worker protections and frequent firings, high strike levels, and little employee input into productive strategies. The USA follows the model with its low rate of unionisation (especially since Ronald Reagan’s deunionisation drives that eroded representation to 11.5 percent by 1993). A “substantial representation gap” has denied both firms and workers benefits available elsewhere. In CMEs shop floor workers are given vital information only available to top managers in LMEs. Representative groups strengthen worker commitment to the firm, increase worker concessions in difficult times and provide forums to discuss new solutions. Collective forums have efficiency effects – enabling better decisions, eliminating information asymmetries, and stimulating higher rates of job training (Freeman and Rogers 1993; Osterman 1999). Adversarial labour-management relations can dampen productivity growth because a more cooperative workforce is quicker to accept new technology and the elimination of less-productive jobs. Employment security makes it easier for workers to embrace technical change willingly, to give up obsolete work rules, and to participate in the industrial restructuring so necessary to productivity growth (Work in America Institute 1984, pp. 323-45).

In the USA the absence of strong unions is one factor that has produced enormous wage dispersion, limited worker protections, and few incentives...
Thus, again this general picture fits with the US economic successes in the 1990s, in which many welfare recipients returned to work, but this work was concentrated in jobs with minimal skills.

The American public system of social protection has always been a small operation, crowded out as it has been by the extensive system of employment-based private sector benefits, the shadow welfare state (Stevens 1990). Overall public social expenditures are low by comparative standards, although when private measures are added the USA begins to resemble European countries (Hacker, forthcoming). (US public expenditures on health also resemble those of other advanced industrial countries.) Yet even taking into account private social measures, Americans workers have fewer protections against unemployment and poverty. The so-called “decommodification” of workers is quite limited, as replacement rates are low. Income supports for poor people are even lower, as individuals on welfare often remain below the poverty level. Therefore, despite conservative claims to the contrary, welfare assistance is hardly a viable alternative to work as a means of economic sustenance.

American public policies in the training and active labor market areas illustrate the limits to social protections in the USA. Early training efforts were tainted in their link to income maintenance program, and many active labor market policies were never seriously considered in the US (Weir 1992; King 1995). Low-income, marginally employed persons have very different needs from displaced workers, but these groups have often been put into the same programs. This goal conflict combined with lack of funding reduced the effectiveness of past government training programs such as the Manpower Development and Training Act, the Comprehensive Employment and Training Act and Job Training Partnership Act (Bonner-Tompkins 1994, pp.1-9; LaLonde 1995, pp.149-168). Kazis and Sabonis (1990, p.7) suggest that employers never followed through with the hard-core unemployed and routinely demand monetary incentives and less red-tape in exchange for their participation in training efforts. The Jobs Training Partnership Act, passed in 1982 ostensibly to help the have-nots of society, ended up benefitting displaced workers and subsidizing normal firm start-up costs. Anthony Carnevale of the American Society of Training and Development characterized this dualism as a “schizophrenia in purpose” (Victor 1990, p.898).

The recent welfare reform, the Personal Responsibility and Work Opportunities Reconciliation Act of 1996, also illustrates the distinctiveness of the American model. Although the reform was a momentous break with social legacies in doing little to alter the low labor force (Weaver 1998; Teles and Prinz 2001). The welfare reform act dramatically scaled back the income support safety net by replacing the existing entitlement program, Aid to Families with Dependent Children, with a new federal block grant program to the states, the Temporary Assistance for Needy Families (TANF). Thus, the law reconfigured the funding base for social assistance, changing it from an entitlement whereby the federal government would fund every eligible person to a block grant whereby each state would receive a fixed sum to allocate as it saw fit. In order to address the issue of long-term dependency, the law set a 5-year lifetime limit on an individual’s ability to receive federal welfare benefits and ended benefits altogether for legal immigrants. The bill made deep cuts in the food stamps program and made fewer people eligible for Medicaid, although the Children’s Health Insurance Program now funds health benefits for poor children.

At the same time the federal welfare reform act deviated very little from the legacies of a liberal welfare regime, by maximizing the coercive aspects of welfare-to-work by forcing beneficiaries back into the work force while minimizing the incentives such as expanded training and child care opportunities. The liberal character of the act does not merely illustrate a failure of imagination: the Clinton administration originally conceptualized welfare reform along the same lines as active social policy in European countries. The core ambition was to reintegrate the economically and socially excluded back into the core economy and into mainstream culture by giving them the skills and support necessary for entering the work force (Ellwood and Bane). Yet the national bill ended up as a much more narrowly focused, punitive measure that relied on coercion to force recipients into (usually) low wage jobs without offering much assistance to help them make the transition. The original Clinton proposal had no hard time limits and fairly lax work requirements, allowing many AFDC parents to escape work to care for their children. Clinton also proposed including an annual $5 billion to be spent on training, child care and transportation, services to enhance the skills of the beneficiaries and to assist them in making their new jobs a success; however, these expenditures were subsequently dropped from the bill (Weaver 1998; Cohn 2000). As Bane (1997) warned shortly after the bill’s passage, by giving the states complete flexibility over the allocation of block grant funds and eligibility requirements, the federal government abdicated all responsibility for poor children and potentially contributed to the disparity among states. Perhaps most troubling, however, was that the block grant approach had different incentives than the old AFDC formula and ac-
A state received federal matching funds for its welfare expenditures. Under TANF, however, the state received the block grant up front without stipulation and could choose to apply these funds either to the intended beneficiaries or to a variety of other pressing needs. Given this logic, welfare mothers could lose out to new roads, schools, or other completely unrelated needs (Jencks 1997).

Something closer to the European active social policy models can be found in some states; indeed, the national bill left much up to state discretion in order to create a natural laboratory for regional experimentation. States were inspired to move beneficiaries into jobs and to reduce caseloads by the block grant system, which held states financially responsible for any overload of social beneficiaries. Yet few details were specified, and a thousand flowers have, indeed, bloomed. Some states such as Illinois and Washington have tried to alter the ratio of cash benefits to services such as child care, transportation, and in some cases training; but most states have lengthy waiting lists for these services (Waller 1997). Where Minnesota offers extra cash to welfare beneficiaries for work force participation, Michigan relies heavily on training programs to move individuals into lasting employment. Kansas has invested in other types of services to address the social problems of welfare recipients such as substance abuse programs, while Texas has chosen sticks over carrots in its anti-fraud measures. Some states such as Washington and Ohio offer localities considerable discretion or turn to private contractors for service delivery (Nathan and Gais 2001).

The contour of American welfare reform appears in sharpest relief when compared to the active social policies found in many small countries. For example, the Danish active social policies confirm many of our expectations about social democratic welfare regimes, in emphasizing activation over benefits reduction, autonomy for recipients, and fairly (though now time-limited) high unemployment benefits (Green-Pedersen et al. 2007). Danish social policy extends to a broader group of clientele by including those with reduced working capacities who are currently employed. The effort to bring everyone into an inclusive labour market (den rummeligt arbejdsmarked) fits with the universality found in social democratic welfare state regimes; however, some critics worry that active labour market policy strips citizens of their social rights (Cox 1997; Abrahamson 1998).

At the same time Danish active social policy has attempted to eradicate some of the traps of and has deviated in important ways from the legacies of the social democratic welfare states, such as the over-reliance on job growth in the public sector and the problems associated with solidaristic wage bar-
Somewhat misleading about the model is the idea that American managers have chosen (more or less contentedly) a competitive strategy utilizing a minimally skilled work force. That a large share of American firms compete in the high-skills sectors is evident from the dynamism of the US economy, its high productivity levels and the productivity gains of the late 1990s. Indeed, as we have seen in this dualistic economy, half of the job growth has been in the low-skills sectors with the other half in jobs requiring quite high-level skills and educational training. Consistent with this story is a dualistic economy in which productivity levels are quite high in manufacturing and less high in services, although service sector productivity growth has been rapidly increasing. In fact, when productivity growth first began to drop off in the 1960s and early 1970s, the growth of the service sector was an important cause of this decline, while manufacturing productivity remained quite high throughout this period (Thurrow).

The varieties of capitalism literature certainly does not deny that LIMES have competencies at the high end, but this literature argues that successes are most likely to be found in cutting-edge technology sectors where product innovations (creating new products and designs) count for more than process innovations (that make incremental improvements to the shop-floor manufacture of the goods). In the former, highly educated scientists and engineers are the architects; in the latter, skilled blue-collar workers on the shop floor often offer ideas. Thus, the skills at the top compensate for the comparative lack of skills in the middle rung of society. Yet while to some extent this is true, productivity gains have not been limited to high-tech sectors as many industries have incorporated advanced production processes, and even services have seen productivity growth (Kask and Sieber 2002; Kotetz 2002).

This explanation also ignores the enormous changes on the shop floor in the past 20 years, as American managers have struggled to upgrade process technologies, to implement quality improvements, to reorganize workers into self-directed quality circles, and to incorporate computer technologies requiring a skilled blue-collar workforce. Inspired by the apparent successes of Japanese manufacturing processes, a revolution took place within business thinking (Hayes et al. 1988). Managers were told that the new rules of competition demanded greater worker participation and consensual labour relations, especially because technology can be implemented most effectively under conditions of consensual labour relation strategies (Wilkinson 1983, pp. 89-90; Davis and Haltiwanger 1991, pp. 115-80). The high-per-

In addition, by placing firm strategies and motivations at the center of the model, the varieties literature suggests that US managers affirmatively decided to compete in low-skills sectors and implies that they have been content with this approach. Yet corporate opinion polls over the past couple of decades consistently suggest that managers are urgently distressed about the inadequate skills of the American work force. In 1986, 80 percent of a Business Week 1000 sample wanted new education and training programs, and 65 percent were even willing to pay higher corporate taxes for educational improvement (Harris et al. 1986). In a 1991 NAM study, 64 percent was interested in “a national, business-run remedial education program”. Firms rejected five-sixths of their applicants due to inadequate skills and found one-third lacking in essential reading and writing skills (Towers Perrin 1991). A 1996 study found 70 percent of its employers’ sample desiring increased federal spending on training. Last year NAM found 59 percent of its members identifying a shortage of skills among blue-collar workers as their most pressing problem, a change from its 1997 survey in which managers were most concerned about finding employees with appropriate information technology skills. (In comparison, only 48 percent of the firms identified a serious shortage of scientists.) Workers’ skills deficiencies prevented 43 percent of the firms from implementing new productivity improvements, and 62 percent said that they could not maintain the level of production necessary to fill consumer demands. Some 80 percent of the respondents said that their biggest problem with voluntary employee turnover was among hourly production workers, who in the tight labour market had the luxury of moving elsewhere in search of higher wages (NAM 2001). Reflecting on these sentiments, Clinton’s Secretary of Labor Alexis Herman noted that even while the US economy performed “beyond our highest expectations”, the new economy demanded a wide range of skills that significant segments of the population simply do not have (Abraham and Klein 1999, p. 1). The influential report, America’s Choice: High Skills or Low Wages, warned:

America is headed toward an economic cliff... If basic changes are not made, real wages will continue to fall, especially for the majority who do not graduate from four-year colleges... It is no longer possible to be a high wage, low skill nation. We have choices to make (Commission on the Skills of the American Workforce, p. 91).
ers has been met with an immigration policy that compensated for an inadequate training system in the US by admitting foreigners with the requisite skills. Since the mid-1980s immigrants have had increasingly higher skills than their native-born counterparts (Jasso et al. 1998). In recent years, there has also been an enormous growth in foreign contingent workers, who come on short-term contracts to fill specific job needs (Martin 2002). Economists and business managers alike have pushed for a liberalized immigration policy that would advantage highly skilled workers, especially those who have been trained in the USA (Tyrone 1999). For example, the NAM-led business coalition, American Business for Legal Immigration, joined in urging Congress to pass legislation streamlining visa and green card processing for skilled immigrants (American Business for Legal Immigration 2000).

Firms have also sought to fill the skills gap themselves by internalizing the costs of training and creating firm-specific skills. Although as mentioned above the high levels of labour mobility in the US tend to limit corporate investment in training, many companies have nonetheless expanded their training budgets in recent years. According to a Training magazine survey, although the workforce has only grown by 35 percent in the past 20 years, expenditures on training have grown by 555 percent (Galvin 2001). The National Association of Manufacturers survey found that 52 percent of its sample had increased training expenditures since 1997 (NAM 2001). Training in America has become a veritable cottage industry.

The policy efforts of the 1990s also belie this vision of general acceptance of a low-skilled society. Although the welfare reform act ended up very much as a liberal version of active labour market policy, the initial Clinton proposal was much broader in an effort to alter the nature of American employment— to enhance skills and to enable firms to develop high-skills productive strategies that would lead to a greater percentage of highly skilled jobs. Seeking to create the conditions for the high performance workplace, the Clinton administration offered initiatives to improve the human capital available for productive employment. A national health reform act would rationalize health financing, expand access to all Americans, and contribute to a healthy, secure, productive workforce. Frustrated with public sector training programs, the Clinton administration proposed three employment and training initiatives to expand and support workforce development in the private sector (Reich 1983, pp. 248-9). The School-to-Work Partnership Act, although initially a pilot program, was intended to develop a national apprenticeship program. The Goals 2000 Act sought to establish a national framework for education and to make education meet standards of compe-
The Housing/Stock Market Bubble

Another reason the arguments contrasting LME and CME modes of competition have trouble accounting for the success of the US economy is the demand-led nature of the boom, a causal factor unconnected to the LME/CME logic. At least some of the energy fueling the US economy in recent years has been demand-led: demand in the US economy grew at an annual 4.9 percent between 1995-2000, while demand grew at only 1.9 percent elsewhere. Yet this demand has been of a dangerous kind, built in part on consumer debt made possible by escalating stock and housing prices. Spending propelled by household debt skyrocketed at the end of the 1990s. Where household debt was already 85 percent of income in 1992, it had escalated to 103 percent by 1999, and private saving dropped from 6 percent to -4 percent (Becker 2001; Economist 1:22-00, p. 21). Almost doubling since the start of the 1990s, total household debt stands today at the astonishing level of $7.4 trillion dollars (Bernasek 2002). Although much of this debt-funded buying spree went to satisfy the burgeoning taste for imports, American firms were also able to cash in on the largesse of its buying public.

What has accounted for this Madame Bovary-style mania? Although many factors contributed to our emergence as a debtor society, the enormous rise in stocks and housing prices undoubtedly played a role. The stock market soared during most of the 1980s and 1990s, although as of this writing the bubble will burst. The price of housing grew much more than usual due to the intense buying by investors. Yale economist Philip Schiller argues that this speculative bubble has been driven by a mixture of media-driven optimism in the new economy, amplification mechanisms, and the follow-the-leader mentality of the new day trader (Shiller 2000). Whether Shiller’s bearish forecasts will prove correct is not yet clear. In November 2001 the National Bureau of Economic Research officially declared that a recession had begun in March: unemployment had risen to 5.4 percent by October, consumer spending was flat, and third-quarter corporate profits among Business Week’s 124 bellwether companies showed the biggest profits drop in 25 years (Stevenson 2001; Foust et al. 2001). By the spring of 2002, the recession was declared over, yet by summer the stock market’s continuing decline combined with depressed corporate profits dashed hopes for a quick recovery (New York Times, 7/8/02).

Housing prices have also been bubbling, rising as much as an annual 8 percent in recent years and as much as 20 percent a year in some major metropolitan areas (Business Week 2001; Bernasek 1999). Those lucky enough to have purchased in more sensible times suddenly feel that they have money to burn. Consumers are rushing to take out home equity loans based on the (new) values of their homes, forgetting, perhaps, that unless they decide to move, the gains in equity have no tangible impact except perhaps for an increase in real estate taxes. Home ownership also increased in the 1990s—from 64 percent in 1991 to 68 percent in 2001 (Mandel 2002a). The Federal Reserve’s low interest rates, designed to inspire corporate investment, has fueled both the purchase of homes and the consumer free-fall into debt. With interest rates on 30-year mortgages down to 7 percent, new homeowners feel that they can afford to pay higher prices, and existing homeowners can refinance or take out home equity loans (Bernasek 2002).

One also wonders whether the economic comeback enjoyed by the USA in the 1990s was at the expense of other economies (and former model countries). Thus, Brenner (2001) argues that problems of over-capacity and over-production plague the global economy, and national economies take turns enjoying brief stints of vitality. Economic malaise in the past quarter-century reflects falling rates of profit and employment caused by global over-production and the technological transformation of industry. Firms and nations have struggled to regain profit share at the expense of their workers and global competitors.

Surges in the functioning of national economies have often rested on magical wealth created by housing and stock bubbles spurring consumer de
Conclusion

What are the lessons to be learned from this survey of the American employment experience? Three conclusions come to mind: success may be transitory, success has redistributive costs, and success may reflect circumstances at odds with or outside the logic of the American model. First, success may be transitory. Although we have now been told that the first recession of the 21st century is over, the downturn dampened praise for the American model and raised questions about disquieting flaws in the American model. Indeed, one can make the case that much of the highly touted employment growth of the 1990s was a somewhat flimsy affair from the beginning, with half of the new jobs in low-skilled, low-wage sectors. These sorts of jobs have a transient, here-today-gone-tomorrow quality that makes for easy disappearance in tough times.

Second, success has not-very-hidden redistributive costs. Enthusiasm for the new economy depends on one's vantage point. Despite gains in employment, those in the poorly paid, unskilled bottom tiers may ultimately be worse off than ever, especially with the safety net of Aid to Families with Dependent Children now an entitlement of the past. The policy legacies of the liberal welfare state reinforced the peculiarly American brand of employment growth. Job growth in the 1990s was partially stimulated by a major welfare reform that severely scaled back already minimal social protections. Indeed, the welfare reform bill eliminated social supports in place for 50 years, leaving many defenseless in the face of future economic downturns. This erosion of the welfare safety net pushed (often unwilling) recipients back into the work force, usually in minimum wage jobs. Issues of compassion or social rights aside, the strategy was far more successful than expected in re-employing welfare recipients during the boom years of the late 1990s. The AFDC caseloads declined by over half between 1994 and 1995,

Boehm (Danziger 1999).

But the goal of employing and retaining (usually) under-skilled, (often marginally employable persons in the labor market is likely to be difficult to sustain during bad economic times, and many fear for the security of the truly disadvantaged in a time of economic malaise. Because the law turned social assistance into a block grant program, whereby states receive a fixed sum from the federal government, states had the ability to run a social assistance surplus during the recent good economic years. Many states redirected funds targeted for social provision to other (mixed) ends: while some like Wisconsin invested in training, others chose less relevant pursuits such as paving roads or cutting taxes. Those that spent relatively more of their training may have helped recipients make the quantum leap to a more highly skilled level of employment and may actually save money in the long run. Twenty-two states have already exhausted their reserve unemployment insurance funds, and one wonders what will happen when the roll expands again with the downturn (Starr 2001; Wilson 1996-7). Thus, the same features of American public policy that inspired rapid wage growth in the 1990s are posing severe risks in the current climate both for individuals and for the broader social fabric.

Third, success may reflect circumstances outside of the American model. Crediting American employment and economic successes entirely to strategies of a liberal market economy may miss the mark. The LME model fails to account for the diversity of the economic system and the impressive employment gains in highly skilled production areas. Nor does it capture the amount of corporate concern about low skills and conflict among sectors about the direction for future economic success. In some ways the imprecise aspects of the American model have been accomplished in spite of rather than because of the tendency to engage in LME low-skills competitive strategies. Productivity growth and much of the employment growth have occurred among large firms that have broken with this traditional model (Harrison). Their desperate need for skills has partially been met by factors outside of the model, such as a large number of skilled immigrants who have been trained in their own countries.

The economic boom has been driven in part by the housing and stock market bubbles, a dynamic that limits the extent to which we can and should seek wisdom from the American model. If the employment miracle reflects serendipitous circumstances, the only lesson to be derived is that luck sometimes happens. To the extent that the enormous employment and GDP gains of the 1990s are spurred by bubble dynamics, the economic accomplish
The German Contrast. On Bad Comparisons, Special Circumstances, Luck and Policies That Turned Out to Be Wrong

Uwe Becker

'Germany isn't working'

'Europe has a problem – and its name is Germany,' according to The Economist of January 19, 2002, in a leader titled 'Germany isn't working'. Why? In the decade up to 2000, German economic growth was below OECD average, and in 2001, as the world economy slowed down, German growth slowed to just over half a percent per year, the lowest rate in the EU. By 2002, Germany hardly grew, and growth forecasts were gloomy. Unemployment had risen past the politically important level of 4 million, business as well as consumer confidence was at record lows, and the popular economic outlook was generally pessimistic. Germany had turned from the engine of the European economy into the laggard. What explains this dismal situation?

The usual answer, found in many newspapers and advisory commission reports, claims that the causes of the poor German performance lie in high wages and social security costs, complex taxes and tight labour market regulations. The excuse of reunification costs and shocks no longer has much credibility, according to The Economist. Given this diagnosis, most popular analyses suggest the obvious responses: the labour market has to be made more flexible, and the tax and welfare systems have to be reformed! The most prominent voice advising such reforms is perhaps the OECD in its most recent Economic Survey on Germany (2002), pp.5, 13). And company bosses threaten to move activities abroad if tax reform and labour market liberalisation will not take place very soon (Financial Times, December 16, 2002, pp.1, 3). The 'proof' that these reforms work is usually made by reference to better performing economies that have reformed their labour markets. Did not the US Federal Reserve Bank Board chairman Alan Greenspan advise the same when he said 'that the greater ease with which employees can be laid off in the US has counter-intuitively created a greater incentive to hire and thus reduced unemployment in the US to levels unimaginable in all but a few countries in Europe' (Wall Street Journal Europe, August 29, 2000)?