

Chapter 9

High Road Capitalism

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In the United States at the beginning of the 21st century many people believe that free markets, largely unregulated by the state, are the best way to organize an economy. Since the last quarter of the 20th century, politicians of both parties have argued that low taxes are essential for a healthy economic environment and that government regulations mostly just get in the way of energetic entrepreneurs and are thus ultimately harmful to prosperity. While the economic crisis that began in 2008 may signal a change in this faith in the free market and hostility to government, conservative politicians still proclaim in the words of Ronald Reagan that “government is the problem, not the solution.”

In previous chapters we have looked at some of the problems with free markets in particular domains of economic life: generating negative externalities on the environment; undermining an efficient transportation system; intensifying consumerism; and creating a high cost healthcare system with great inequalities in access. But the question still remains: how well do deregulated, free markets do at the core of economic life itself? This is the bottom line for many people: do weakly regulated free markets and capitalist enterprises “deliver the goods” by providing prosperity, opportunity and reasonable economic security for most people?

This chapter will begin by reviewing the economic record of recent decades to see how well American capitalism has really performed for the lives of most people. We will then lay out a contrast between two broad ways that a developed capitalist economy can be organized, which we will refer to as “Low road” and “high Road” capitalism. We will argue that the erosion of the affirmative state through the deregulation of capitalist markets has put the American economy on the low road, and the only way to change routes is to rehabilitate an affirmative state capable of providing a range of vital public goods and imposing constraints on the strategies of powerful actors within markets. The chapter will conclude with a discussion of the obstacles to accomplishing this.

THE ECONOMIC RECORD

From the end of the Second World War until the early 1970s, average real weekly earnings for private production and nonsupervisory employees – over 80% of all private sector wage and salary employment – rose by over 60% from \$387/week in 1947 to \$623/week in 1973 (see Figure 9.1).¹ This increase in earnings was very evenly distributed throughout the economy: during that quarter century, incomes of families at the 20th percentile in the income distribution increased at a rate of 3.7% a year, at the 50th percentile at a rate of 4.1% and at the 95th percentile at a rate of 3.5% (see Figure 9.2, top panel).

-- Figure 9.1 and Figure 9.2 about here --

¹ *The State of Working America, 2008/9*. Table 3.4. Before the early 1970s it is not possible to calculate *median* earnings, which is generally a better indicator of economic conditions for the average person (the person in the middle) than is mean earnings, since the latter is affected by skewness in the earnings distribution.

Things changed dramatically during the 1970s. Beginning in the middle of that decade and intensifying during the 1980s, earnings stagnated. The average weekly earnings of private production and non-supervisory employees declined from \$622 in 1973 to \$541 in 1995, and even by 2007 had only risen to \$590. Median household income did continue to rise, but at a much slower pace (see Figure 9.3), and the rise that did occur was largely because of the increased levels of employment of married women. Median hourly real wages for men actually declined between 1973 and 2007, but within households this was compensated for by increased real hourly wages and increased labor force participation of women (see Figure 9.4).

-- Figures 9.3 and 9.4 about here --

Not only did earnings stagnate during the last quarter of the twentieth century, but the growth that did occur was heavily concentrated at the top of the earnings distribution (Figure 9.2, bottom panel). From 1973 to 2005 incomes of families at the 20th percentile grew by only .3% a year, while family income at the 95th percentile grew at 1.9% annually. Over the entire period, this means family income at the bottom increased only about 10% whereas incomes for families at the top increased over 60%.

Underlying this dramatic change in the character of economic performance of the American economy after the 1970s was a sharp divergence of the rate of growth of productivity and the rate of growth of total employee compensation -- the sum of wages, salaries, health, pensions and other non-wage benefits. Productivity is a measure of the amount of economic value generated by each hour of labor. When employee compensation grows at a slower rate than productivity growth, this means that a disproportionate amount of the extra value being created by rising productivity is going to owners of capital rather than to labor. As Figure 9.5 indicates, up until the late 1970s, the growth of both average compensation and median compensation closely tracked productivity growth. Beginning in the 1980s these begin to diverge. This divergence is revealed in a particularly stark way by comparing rates of growth of productivity and compensation during periods of economic expansion (Figure 9.6): In the economic expansion from 1975-1979 both productivity and median compensation grew at 1.4% a year. In the expansion of the 1980s, productivity growth increased to 1.6% a year, but median compensation declined to .2%. In the expansion of 2002-2007, productivity growth accelerated to over 2% a year, but median compensation did not grow at all. We had moved from a world in which the fruits economic growth were broadly dispersed in the population to one in which the gains from growth were concentrated at the top. Clearly something fundamental had changed since the 1950s and 60s.

-- Figures 9.5 and 9.6 about here --

During this period of transformation of the character of the American economy, a number of other important trends occurred. First, there has been a significant change in the nature of the jobs that are being created in the American economy. Jobs are the main way that most people acquire their standard of living, so it matters quite a bit where in the economy job growth is occurring. During periods of economic expansion, are jobs being created mainly in the middle of the economic structure, at the top, at the bottom? It would be nice to chart the trajectory of the job creation over time in terms of a full range of measures of the quality of work: pay and benefits, job security, meaningfulness of the work, social benefits from different kinds of jobs, and so on. This is simply not possible. What we can do is investigate how the patterns of job growth over time have changed in terms of the earnings associated with different kinds of work. Here is the

basic strategy²: Using data for the American labor force, we can define different kinds of jobs as specific kinds of *occupations* within *economic sectors*. Truck drivers in the medical services sector, secretaries in durable manufacturing, and accountants in the insurance sector would be examples. The number of categories that are created in this way varies for different periods because of changes in the way data about the labor force is gathered, but since the 1980s it is possible to classify jobs using around 100 occupations and 23 sectors, for a total of over 2,000 types of jobs.

This list of job-types can then be rank ordered on the basis of the median hourly earnings of people in these jobs. This rank-ordered list can then be aggregated into what can be called “job-quality quintiles” on the basis of the number of people in these job-types: the top quintile thus represents the 20% of the employed labor force in the best paying types of jobs, the bottom quintile represents the 20% of the employed labor force in the worst paying types of jobs, and so on. The empirical question we are interested in is where job growth occurs among these five job-quality quintiles during periods of employment expansion, and where job declines occur in periods of contraction.³

Since the end of World War II the two most sustained periods of job expansion in the United States occurred in the 1960s and the 1990s. The pattern of job growth in these two periods, however, was dramatically different. Figure 9.7 presents the net change in the number of jobs in each job quality quintile in the 1960s and the 1990s. As this figure indicates, in the 1960s, there was very strong growth of jobs in the middle of the employment structure and weak growth at the bottom. This pattern of job growth can be described as job upgrading. In the 1990s the pattern of job growth is polarized: weak growth in the middle and strong growth of jobs at the tails. This 1990s pattern was not present in the 1980s, where job growth was fairly evenly dispersed across all five quintiles. It emerged first in the employment contractions of the early 1990s in which job decline was strongest in the middle of the employment structure, and has continued in the contraction of the early 2000s, and in the relatively weak job expansion in the period 2002-2007.

-- Figures 9.7 and 9.8 about here --

This pattern of employment polarization is at least in part linked to changes in the distribution of jobs across economic sectors. Table 9.1 shows the distribution of employment across the major sectors of the economy from 1979-2007. The most striking changes are in manufacturing and personal and miscellaneous services: manufacturing employment declined by over 50%, from 21.6% of all jobs in 1979 to only 10.1% of jobs in 2007, while personal and miscellaneous services increased from 26% to 40.1% in the same period. This pattern of expansion and contraction has strongly adverse effects on employment opportunities and earnings connected to jobs. Figure 9.9 shows that the annual pay of people in contracting sectors during this period is significantly higher than in contracting sectors. In terms of employment

² For a more detailed discussion of the methods used here, see Erik Olin Wright and Rachel Dwyer, “Patterns of Job Expansion and Contraction in the United States, 1960s-1990s”, *Socioeconomic Review*, 2003, 1: 289-325

³ This is different from simply looking at changes over time in income distribution or earnings distribution across *persons*. Here we are looking at the way the distribution of *types of jobs* change over time, where we are indexing job-types by one salient characteristic: the amount of earnings they typically generate.

opportunities for the average American, who does not have a college education, the United States economy has been losing jobs in sectors with relatively high wages and adding jobs in sectors with lower wages.

-- Table 9.1 and Figure 9.9 about here --

This decline in manufacturing is bound up with another critical, long-term trend in the American economy: the increasing imbalance of international trade (Figure 9.10). From the end of WWII until the late 1970s, the United States was a net exporter. Exports and imports combined accounted for under 15% of GDP. Beginning in the early 1970s both imports and exports began to rise, and by the late 1970s imports outstripped exports. By 2007, imports and exports combined accounted for over 25% of GDP, and our negative trade imbalance exceeded 5% of GDP.

-- Figure 9.10 about here --

The massive and rapid growth of trade deficits since the 1970s is linked to one final trend: a truly dramatic increase in the importance of finance within American capitalism. In a very rough way economic activity can be divided into two sorts: activity directly involved in producing goods and services which people consume – cars, computers, food, education, healthcare, haircuts – and activity that involves in one way or another purely financial transactions – borrowing and lending, buying and selling stocks and bonds, etc. Sometimes it is hard to tell which of these is taking place, but still, one can broadly distinguish between activities in what economists call the “real economy” and activities that are within the purely financial economy. Profits are made in both kinds of activities in a capitalist economy. What is striking about the trajectory American capitalism in the last half of the twentieth century was a sharp shift from a system in which profits were mainly being generated through the production and distribution of goods and services – the real economy – to a system in which profits increasingly came from purely financial transactions. Figure 9.9 indicates that between the mid-1950s and the mid-1980s, financial profits accounted for 15-20% of all profits in the U.S. economy. By the 2000s this was over 40%. Much of this financialization of the economy was bound up with rapidly rising consumer debt, especially in the form of mortgages, and also public debt generated by large government deficits. This growing public and private debt was to a significant extent financed by flows of capital from those countries like China that accumulated large dollar reserves due to our trade imbalances. This enabled Americans to consume more than they produced for an extended period of time, but eventually, as we know, this became unsustainable. The result was the financial crisis that began in 2008.

-- Figure 9.11 about here --

These are all long term trends, reflecting the general performance of American capitalism in the last part of the 20th century and the beginning of the 21st. None of these take into consideration the sharp economic crisis that began in 2008 and intensified in 2009. If the specific conditions of crisis were added, this picture would look even worse. The point is that even without the added problem of the economic disruptions generated by the financial crisis, the economic trajectory for average people in the United States since the 1970s has yielded at best very modest improvement, and for many people none at all.

There are many factors that have come into play in explaining these trends. Our central thesis is that this mediocre long term performance of the American economy for the lives of most

Americans is to a significant extent due to the absence of effective state involvement in the creation of key public goods and regulating critical aspects of the capitalist economy.

To understand this thesis we will examine a contrast between two different paths of economic development, two different roads that modern capitalist economies can take. Joel Rogers has called these alternatives “the high road” and “the low road.” Our basic argument can be summarized in a slogan about what needs to be done: “Close off the low road, Pave the high road, and help firms and workers move from the first to the second”

TWO WAYS OF ORGANIZING CAPITALIST PRODUCTION: HIGH AND LOW ROAD CAPITALIST FIRMS

Capitalist firms vary in all sorts of ways: by the markets they serve, the technologies they use, the wages and benefits they pay, and so on. Here we want to draw a contrast between two broad types of firms within economically advanced capitalism, based on their competitive strategy. We will call the firms “low road” and “high road.” In sociology, this kind of contrast involves what are called “ideal types”. An “ideal type” is a stylized description of something in a pure form, a kind of perfect model of some idea or principle. The real world is almost always much messier. In physics, for example, a “frictionless plane” is an “ideal type” – a plane in which one specific property, friction, has been reduced to an extreme value, zero. No real plane ever has zero friction, but this ideal type helps clarify certain kinds of problems. Similarly in our analysis, most firms will not be perfect examples of either high road or low road characteristics, but nevertheless the contrast will help us understand some of the dilemmas and constraints in the American economy today.

Table 9.2 lays out the basic contrast between low road and high road firms. The key idea underlying the “high” and “low” metaphor, is that first type of firm is organized in such a way that it generates a large number of high skill, well-paying jobs, whereas the other primarily generates low skill, low wage, jobs. The metaphor applies both to individual firms and their strategies, and, by extension, to the broader economy within which they function. A low road economy is one in which low road firms predominate. The table describes the various characteristics of firms that point in these two directions:

Basis of competition among firms. There are many different ways that firms compete with each other. One important contrast is between competition based on the *price* of what is produced and competition based on the *value* or *quality*⁴ of what is produced, typically its distinctiveness or relative performance, and more precisely on the efficiency with which firms add such value or quality to their inputs. Of course, firms compete on both grounds, but one or the other is often particularly important to the strategies of firms. In low road capitalism the key thing firms compete over is price. There is therefore constant pressure to reduce costs so that prices can be lower. In high road capitalism competition is primarily over efficient production of value, productivity measured not by volume per unit of input, but revenue per unit of input. This means that firms don’t worry quite so much about final costs per se. They are more concerned that they produce the best rather than the cheapest, and do so in a way that makes most efficient use of all their inputs (labor, physical capital, natural capital). They bet that customers are willing to pay a premium for goods and services that perform better and more precisely meet customer needs, and

⁴ The ordinary sense of “quality” is what we mean here, not the business sense of consistency in attributes.

that they can make money by reducing their own waste of the productive resources they use for that.

The nature of the product market. In a stylized way, the goods and services produced by capitalist firms for a market can be divided into two broad types: mass markets for essentially identical goods, and more diverse markets for differentiated goods. This contrast is connected to the distinction between competition over price and value: in mass markets for homogeneous products, the main way that customers distinguish among firms is on the basis of price; in markets for more customized products with distinctive properties, value plays a bigger role. The first of these corresponds to low road capitalism, the second to high road capitalism.

Jobs. In low road firms, jobs are typically organized around very narrow sets of tasks, often highly routinized, within a prescribed division of labor. In high road firms, jobs typically involve many different kinds of tasks and, most important, these tasks change or are frequently combined in new ways. In essence, workers are expected to be able to learn, and to do new kinds of things in new ways. In the high road firm, with emphasis on innovation in improving product performance or distinctiveness, and wringing as much market revenue as possible out of all inputs, new ideas are tried all the time.

Skills. Frederick Taylor, a famous industrial engineer at the beginning of the 20th century, said that the ideal workplace would consist of jobs in which workers could be “trained gorillas” – the skills would be so rudimentary that anyone could be snatched off the street and perform the tasks with almost instant learning. These kinds of low skill jobs characterized the assembly lines of mass production. While, of course, the “trained gorilla” image is an exaggeration, low road capitalism is built around highly routinized jobs that require relatively low levels of skills to perform. The enormous growth of jobs in retail trade and food services since the 1970s are of this character. High road capitalism, in contrast, relies primarily on high levels of skills, especially intellectual skills, although some high road jobs require high levels of manual skills as well. Jobs are not highly routinized and involve lots of problem-solving.

Training. The low skill/high skill contrast corresponds to a sharp contrast in the nature of training in low road and high road firms. In low road firms training is very tightly linked to the requirements of specific jobs in specific firms. Workers in low road jobs may get training, but this training does not give them much job mobility since the skills are not very relevant to jobs in other firms. The jobs in high road capitalism require what can be called “meta” skills – the skills to learn skills. These are highly portable, transferrable across jobs and employers. The training process in low road capitalism is mainly short term training provided by the employer for the narrow specific tasks in that specific firm. High road capitalism requires more lifetime training and retraining that is provided through various kinds of partnerships between employers and public institutions.

Job autonomy. Job autonomy refers to the extent to which people in their work are able to direct their own activities, make choices, figure things out, control their time. Job autonomy is generally very circumscribed in low road jobs. People are under close supervision by bosses who give them specific instructions and closely monitor their compliance within the process of work. In high road capitalism, job autonomy is high, considerable responsibility and initiative is expected of employees and monitoring is much looser. Workers do not feel that they always have a boss breathing down their necks.

Incentives. In low road capitalist firms, work effort is mainly elicited by negative sanctions, especially the fear of being fired for not working hard enough or well enough. In high road firms, work effort is much more linked to positive incentives like prospects for promotions, expectations for future raises, bonuses, or greater authority. Often there are demarcated career ladders, but even when this is not so much the case, workers have expectations that if they are responsible and work creatively they will be able to move to better jobs. This is one way that firms share productivity gains with individual workers.

Hierarchy. In low road firms there is a rigid differentiation of managers and workers: managers make the decisions and issue orders, workers follow those orders. There are many layers of managers, and authority is organized through top down commands with little participation from below. High road firms have relatively low differentiation between workers, supervisors and managers. Managerial hierarchies are relatively flat and there are many occasions for easy interaction and dialogue between managers and non-managerial employees. Authority is not exercised exclusively as top-down command-and-control, but in a manner that involves much more bottom-up participation. This is not to say that firms are really democratic, but they are organized in such a way that ordinary workers play a more active role in collective deliberations and problem-solving.

Wages. Wages for most employees in low road firms are generally much lower than in high road firms. This is both because of the lower levels of labor productivity in low road capitalism, but also because the strategies of firm are so relentlessly linked to cost-cutting that keeping wages low is a high priority.

Environment. Low road firms are classic producers of negative environmental externalities. High road firms, because they are more attentive to net value-added, and because they rely on a public able to pay their value premium, are better for the environment. They root out waste in their own production systems, and don't treat their surrounding communities as waste dumps.

Attachment to place. Closely related, high road firms tend to be more attached to particular places, which they rely on to furnish the better prepared workers they want, the demanding customers that keep them sharp, the myriad public goods on which they rely, the learning opportunities they seek themselves outside the firm, the sorts of communities that would attract such workers (and their managers), and other elements of what is sometimes called "institutional" infrastructure. Low road firms also need basic infrastructure — communications systems, transportation systems, and sources of energy — but are typically much less dependent on such institutional infrastructure, supplied in places.

In the stylized contrast between these two models of firms, all of the traits line up together. In American capitalism today, of course, there is much more heterogeneity than this. There are certainly some firms which overall have a high road character and others with a low road character: Google has many of the high road characteristics; Wal-Mart is a low road firm. A given corporation may have some highroadish departments with highly skilled workers, participatory norms, meta-training and the like, while other departments are characterized more by the logic of cost-cutting, low skill jobs with only job-specific training. And some jobs may have some but not all of the high-road properties. Still, as a broad generalization one can say that in American capitalism from the last quarter of the 20th century, low road strategies have played a particularly strong role in the development of the economy.

Most people if given a choice between these two configurations and asked which is a better world, would say that they would rather work in a high road firm and live in a capitalist economy dominated by such firms. On almost every dimension, the quality of life and work would seem better in an economy dominated by high road firms.

If most people would prefer a high road economy, why, then, does the American economy have so many low road firms? The simple answer is that capitalist firms are not in the business of building better societies, but making a bigger profit. While the high road may clearly be preferable for the society, it may not be clearly preferable for individual firms. Getting onto and maintaining position on the high road is often expensive, and almost always complicated. If easy money is available at low cost and with less hassle, many firms will take it.

Take skills and training, as one example. Let us say you are business owner and have a choice between two production processes, one requiring minimal labor skill — meaning you can find the necessary labor almost anywhere — and one requiring higher initial skill and continuous learning. The second implies a higher cost of initial labor, but also ongoing investment in workers. And while potentially much more productive, educated workers, learning continuously, are harder to deal with, at least if “deal with” means “bossing around,” since they know more and have options in the labor market. If both types of production processes are equally profitable, most firms will naturally take the first. Capitalist firms, after all, are not first and foremost about the value or quality of products, but about the profit for their owners.

This point is important enough that we might pause on it for a moment. In understanding the behavior of firms, it is important always to keep in mind their internal cost structure. This starts with what is called “value-added per employee”. This is the amount of value that each employee adds to the goods and services being produced by the firm. Out of this added value, employees get some share in compensation, and the firm manager gets a share to deal with other costs — reinvestment in the firm, taxes — and retain some profit. This is displayed in Figure 9.12. Value added per employee, the bottom center box, sets the outer bound of options for employers, for this defines how much economic value is being created by each employee. This total value is then divided into a share that goes to the employee – employee compensation – and a share that goes to the employer (the revenue per employee received by the employer). The employer share is then divided into three parts: reinvestment, taxes, and profit, the top center box.

Figure 9.12 about here

Now in choosing among different production paths, it is that center top box that matters most to firm managers and owners. Take two contrasting firms, here displayed in Figures 9.13. They are very different in value-added, and in worker compensation, but also different in needed reinvestment (e.g., in new training or equipment) and taxes, with the result that profit is the same. They have very different effects for the society’s overall wealth, with Firm B contributing much more than Firm A. But for an owner or manager, they are effectively the same. Indeed, for reasons we’ve suggested, Firm A is clearly preferable, because it implies less hassle for managers. This lower-value added strategy in Firm A is what we have called the “low road.”

Figures 9.13 about here

At least initially, globalization can encourage this low-road choice. The sudden entry of billions of very low-paid workers into the global labor market puts downward pressure on wages in rich countries, while opening up a new supply of labor for employers in poor countries.

Employers look immediately to start rolling back domestic labor costs, or structuring production in ways that can take advantage of this new supply. This means that firms will generally avoid making the kinds of investments needed to get on the high road, for example in worker training. We can see this in trends in education in the U.S., which is unique among developed nations in actually going backward in the secondary education of its workforce. And, of course, we see it in the bifurcated pattern of job generation we observed in Figure 9.8 for the 1990s and 2000s: many good jobs, few middle-class jobs, lots and lots of lousy jobs.

Now, in the long-run this seems like a hopeless strategy: the wage differences between rich countries and poor countries are so huge that firms in rich countries cannot realistically compete globally through a low-wage low-skill strategy. Furthermore, in the aggregate, a low-wage strategy of competition erodes the buying power of consumers within the rich countries, and this too in the long run weakens those economies. Over time, therefore, it would seem that the low road is likely to be a bad strategy for capitalists, not just for their employees.

This obviously leads to the critical question of what it would take to change directions. To answer this question we will first examine three obstacles to change, three processes that make it difficult to move from the low road to the high road. We will conclude by briefly showing how a reinvigoration of the democratic affirmative state might help overcome these obstacles.

OBSTACLES TO MOVING FROM THE LOW ROAD TO THE HIGH ROAD

The core economic structures of a society are almost always difficult to change in any significant way. One of the reasons might be thought of as simple inertia: there are established ways of doing things, people have habits and interconnected sets of expectations, and mostly they are resistant to change. But there are also, for particular problems of institutional transformation, specific obstacles that get in the way of beneficial changes, and clarifying these may help identify ways of removing, or at least mitigating, the obstruction. We will look at three such obstacles to changing American capitalism in ways that would move us from the low road to the high road: transition costs, collective action failures in training, and deficits in worker organization.

1. Transition costs

Any significant change in strategies and structures of firms involves added costs. Managers must learn new ways of doing things; new training programs are costly and take time to integrate into a system; significant changes in technologies may be needed to be a successful high road firm. All of these costs of transformation constitute a significant obstacle to major changes. This barrier is especially acute when the time horizon of investors – the length of time in which they calculate their rates of return – is shorter than the time it takes to realize the economic gains from the organizational and strategic changes in the firm.

This “transition cost” problem is illustrated in figure 9.14. The figure tracks the ability of firms in a country like the United States to compete internationally over time. If firms stay on the low road their ability to compete declines gradually. If they adopt high road practices, then eventually their ability to compete significantly improves. The problem is the transition trough – the length of time in which the transition costs outweigh the competitive gains. If investors are always looking for the highest short-run rates of return, then they are unlikely to be sufficiently patient to accept this transition trough. They will either preemptively block the decision to embark on the transformation or will pull out their investments if it occurs.

-- Figure 9.14 about here --

2. Collective action problem in training and skill formation.

This is one of the examples of the free riding problem collective action we discussed in chapter 4. The kinds of skills that are most central to high road capitalist firms are flexible meta-skills developed through various types of general training rather than narrow job-specific skills. These meta-skills take time to produce and easily portable from one employer to another. Individual employers are often hesitant to provide extensive general training, both because of its cost and because employees can always leave. Because of the risks of providing good general training, employers have incentives only to provide the narrow job-specific training consistent with the low-road option. To overcome this collective action failure requires some form of active coordination among firms and some mechanism to discourage riding.

3. Deficits in worker organization and participation

This is a much more controversial argument. In the U.S. capitalist firms are generally very hostile to unions. Conservative commentators portray unions as bullies that interfere with the efficient functioning of the market. This is consistent with strong free market ideology: if you don't like your job or your working conditions, then you should quit. If you want to earn more money, then you should acquire more skills; this is your responsibility. As a consequence of the political strength of the interests that hold these views, labor law in the United States has been quite unfavorable to unions, resulting in one of the lowest rates of unionization among economically advanced countries.

One might think that weak unions might make it easier, not harder, for firms to make the necessary transformations to move from low road to high road strategies. After all, if unions were strong, the employers and managers would have to negotiate such reorganizations with organized labor and this would make the transformations more difficult.

There are two reasons why, in fact, strong unions facilitate high road capitalism. First, the presence of strong labor organization makes movement down the low road more difficult. A strong union can prevent drastic wage reduction and in other ways reduce the incentives for capitalist firms to seek low road solutions to competitive pressure. Second, and ultimately, perhaps, even more significantly, high road capitalism requires stable cooperation and trust between labor and management. High road capitalism involves much more complex relations between employees and employers than low road capitalism. In the latter, managers issue commands; workers do what they are told. High road capitalism requires active, creative participation by employees and a willingness for them to engage in on-going problem-solving within the firm. This requires mutual trust and a belief on the part of workers that employers will not unilaterally defect from collaborative practices. Strong working class organization both within firms and within the labor market potentially can play a strong role in creating the conditions for such trust and predictability by reducing the vulnerability of workers and imposing constraints on capitalists.

This argument is grounded in a specific view about the relationship between the degree of organization and participation of workers and the competitiveness of capitalist firms. Many people think that there is a simple, inverse relationship between worker organization and the competitiveness of firms: the stronger are workers organizations, the less competitive will be the firms in which they work. We believe, in contrast, that the relation looks more like the graph in Figure 9.15: As the power and organization of employees in a firm increases from very low levels, this initially interferes with profit maximizing strategies of firms, but once workers become sufficiently strong to forge robust relations of cooperation, then worker organization and participation become an asset, not a liability.⁵

-- Figure 9.15 and 9.16 --

In terms of this graph, the United States in the first decade of the 21st century lies somewhere to the left of the low point. This shows why, when competitive pressures increase, employers intensify their anti-union stance, for moving further up the left-hand part of the curve is easier than moving to the upward sloping part of the curve (see Figure 9.16). Movement to the high road requires traversing the trough in this graph, and this constitutes another obstacle to high road capitalism.

CLOSING OFF THE LOW ROAD, HELPING PAVE THE HIGH ROAD

Given these obstacles, if the United States is to move in the direction of high road capitalism, how should we think about process of overcoming these obstacles? The basic idea is pretty simple: public policies of various sorts need to be adopted to make it more difficult for firms to pursue low road strategies, in effect “closing off the low road.” Other policies need to be adopted to make easier for firms to adopt high road strategies; call this, with some sense of the environmental irony, “paving the high road.” And, inevitably, during transition, steps need to be taken to enable workers and firms now stuck on the first to get on the second. Let’s say a bit more about what kinds of policies would advance these goals.

Closing off the low road

Closing off or discouraging the low road basically means raising standards on firms through public policy or private action. One example of this is wage standards. People commonly think of “living wage” guarantees as good for poor people, and indeed they are. Providing assurance of decent wages at the bottom of the labor market helps the working poor, and tends to push up wages generally. But wage increases also have an important productivity effect. By making labor cost more, employers have more incentive to make it more productive. Better jobs also lead to workers sticking around longer, and they pick up additional skills in doing so.

The U.S. has largely abandoned efforts at such wage-led redistribution or productivity growth. Take minimum wages, a central part of the U.S. wage standard effort. A higher minimum wage would tend to discourage low road practices, but we’ve let it fall. As Figure 9.15 shows, in terms

⁵ For a more extended discussion of this curvilinear relation between the strength of unions and the interests of employers, see Joel Rogers, “Divide and Conquer: Further ‘Reflections on the Distinctive Character of American Labor Law’.” *Wisconsin Law Review*, 1990, 13:1–147, and Erik Olin Wright, “Working-Class Power, Capitalist-Class Interests, and Class Compromise,” *American Journal of Sociology*, Volume 105 Number 4 (January 2000): 957–1002.

of real purchasing power, the minimum wage in the United States reached its peak in 1968 at around \$8.00 in inflation-adjusted 2007 dollars. This declined (with various ups and downs) to just over \$5.00 by 2007, the lowest value in real purchasing power since 1950. In 2007 increases in the minimum wage were enacted so that in 2009 the level had rise to \$7.25, but this was still only at the level of the mid-1960s.

-- figure 9.17 --

These figures are particularly impressive given fantastic growth over in the same period in overall wealth and productivity in the United States. If the minimum wage in the U.S. had kept up with the growth of productivity in the U.S. since 1968 it would have been \$18.30 in 2008.⁶ Even if had only grown as fast as average earnings in the private sector (which grew more slowly than productivity), it would now be about \$12.50.⁷ In fact, the minimum wage has lagged so far behind the overall growth in the American economy that it has become largely (not entirely) irrelevant in labor markets. As late as 1980, some 15% of hourly workers were paid the minimum wage. By 2008, that had fallen to a mere 2.3% of hourly workers.

Another way that wages rise is through worker bargaining with employers in labor markets. Here, especially for less educated workers, it is important that individual workers be able to bargain with employers as a group. They simply lack the labor market position, as individuals, to move employers on their own. In America, as in most countries, the best means of collective bargaining is through independent worker organizations, or unions. As we still see in more detail in chapter 21, however, American labor law makes it particularly difficult for workers to form unions.

One could however, imagine raising the minimum wage much further, and connecting it to the rest of the labor market by indexing it to inflation or setting it to some constant share of the median wage. And one could imagine making it easier for workers to join with other workers in collective bargaining with employers. One could also imagine imposing higher environmental standards on employers, and conditioning any subsidies to them on performance, with “clawbacks” of those subsidies if they did not perform. We might also require employers to provide health insurance, or pay into a federal fund that did that, or require the same for worker training. All these sorts of policy steps would make it more difficult to pursue the low road option. They would effectively close it off.

Paving the high road

Encouraging higher wage and other standards, and facilitating collective bargaining, would be among the “sticks” needed to drive employers toward the high road. What about “carrots”?

A first answer to this question is that closing off the low road would, for many firms, be carrot enough. Relief from competition from low road firms would be of immediate benefit to

⁶ Between 1968 and 2008, labor productivity in the nonfarm private sector grew from 66.9 to 140.9 (using an index with 1992-100), or 110%. In 1968 the minimum wage was, in 1968 dollars, \$1.60, which is the equivalent of \$8.70 in 2008 dollars. Thus, if the real value of the minimum wage had grown at the same pace as productivity, it would have been \$18.30 in 2008.

⁷ The average hourly earnings in private industries in 1968 was \$17.47 in 2007 dollars, and \$26.13 in 2007. The total growth in mean earnings for the period was thus 49.5 percent. In 2008 dollars, the 1968 minimum wage was \$8.70. Thus, if the real value of the minimum wage had grown at the same pace, it would have been \$12.95 in 2008.

high road firms, or those wanting to get on the high road. It would give them some breathing room. At present, such “good” firms often pay the cost of “bad” ones. All else equal, firms that pay their fair share of taxes and offer their workers decent wages and health benefits, for example, are at a competitive disadvantage with firms that do none of these things. As if that’s not bad enough, however, they often wind up subsidizing the very firms that are unfairly outcompeting them.

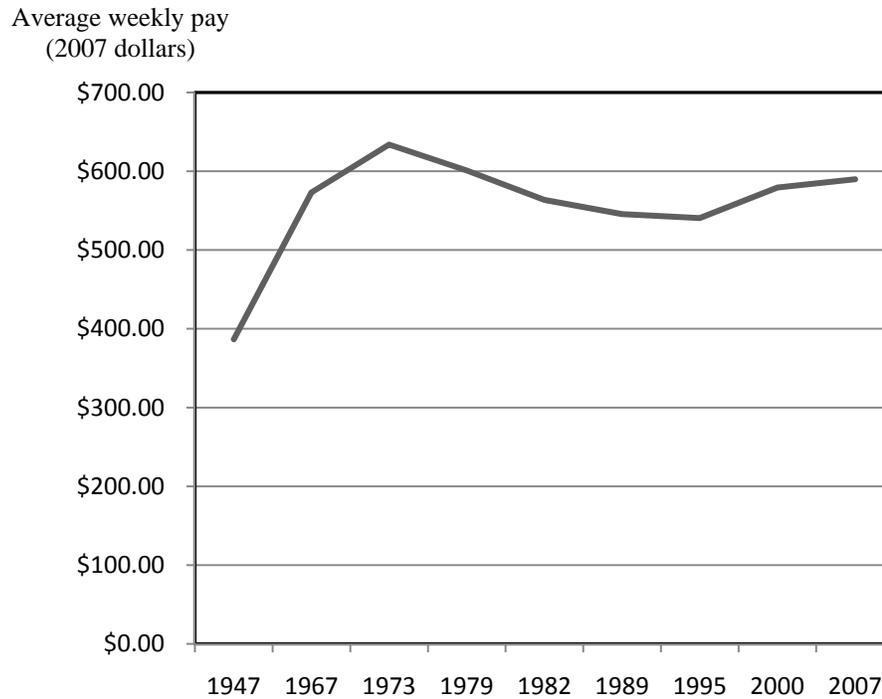
Just because a firm doesn’t pay its taxes doesn’t mean it won’t insist on police protection and basic infrastructure, which taxes pay for. Just because it doesn’t pay its workers enough even to owe taxes doesn’t mean that those workers won’t want the same sort of basics, and decent schools for their kids, and care at the emergency room or public clinic when the kids get sick, maybe even a safe park to play in. As economists are fond of saying, “there is no free lunch.” If some public good or service costs money, somebody’s paying for it. Low road firms, by externalizing those costs on to the rest of the society are the ultimate free-riders.

But if getting rid or eliminating their low road competitors isn’t enough, there are other things that society can do to make the high-road easier to walk for firms. What they need most, it turns out, is that institutional infrastructure we talked about before. They need decent schools and training systems whose costs they can share with other firms. They need help in making sure their remaining collective action problems are solved through partnerships with their competitors in producing specialized public goods of concern to them all. They need modernization services that alert them to new technologies to improve productivity. They often need help in getting through that transition trough.

Other countries, more than the U.S., recognize these things. They have long since decided to take the high road, recognize that it’s the only way they will prosper in a world with an awful lot of poor people who want to live as well as we do. They invest in public goods — education, advanced transportation and communications infrastructure. They reduce their waste — of energy, people, non-renewable physical resources of all kinds. And they and their working classes make sure that, for that effort, they capture some of the productivity gains that result.

We know such a high road is perfectly possible under capitalism, since other capitalist democracies are pursuing it. We just haven’t made up our minds, and gotten organized, to do that in the United States.

Figures & Tables for Chapter 9

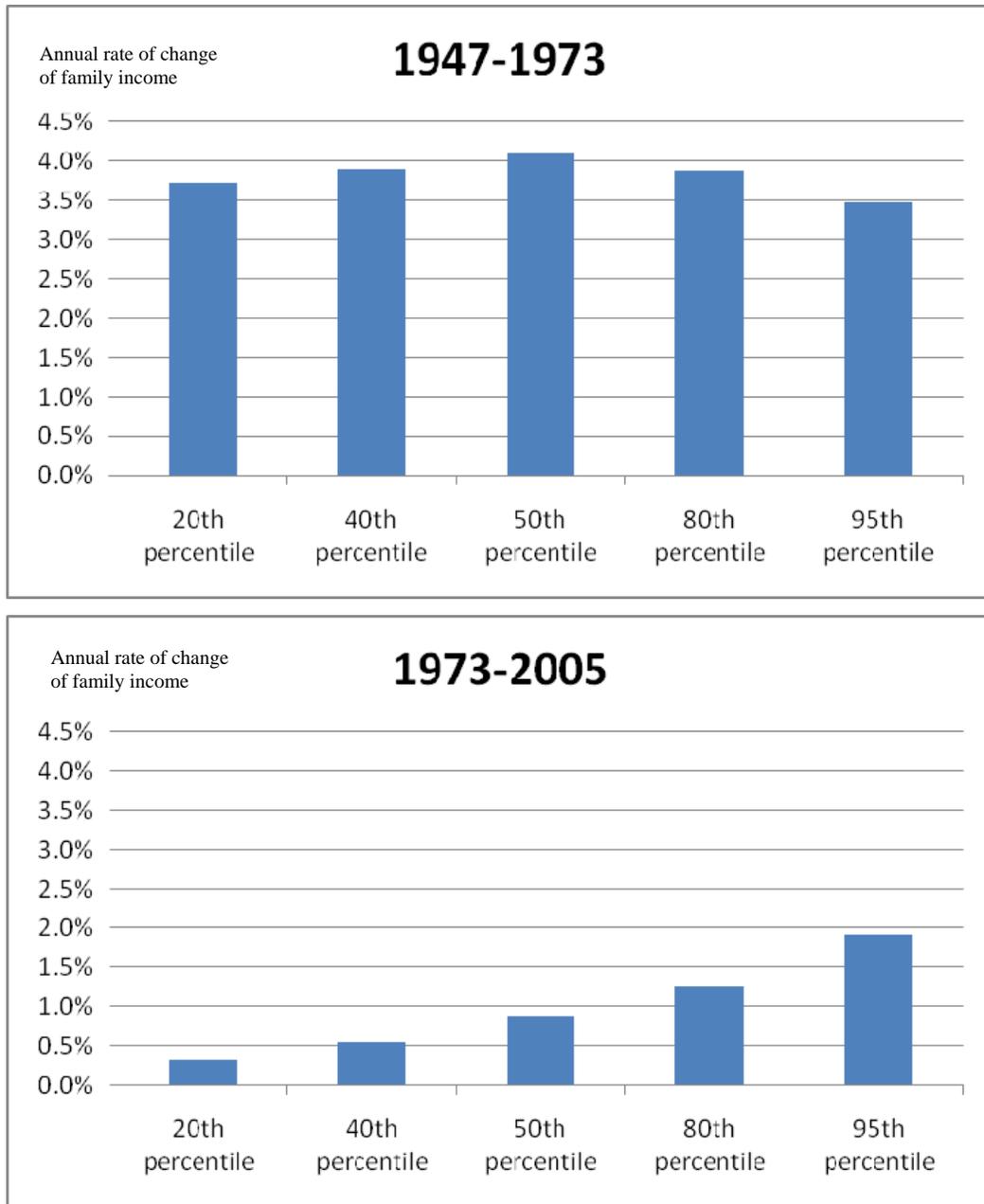


Note: Figures are for private production and nonsupervisory employees who account for more than 80% of private wage and salary employment.

Source: *The State of Working America, 2008/9*. Table 3.4

Figure 9.1

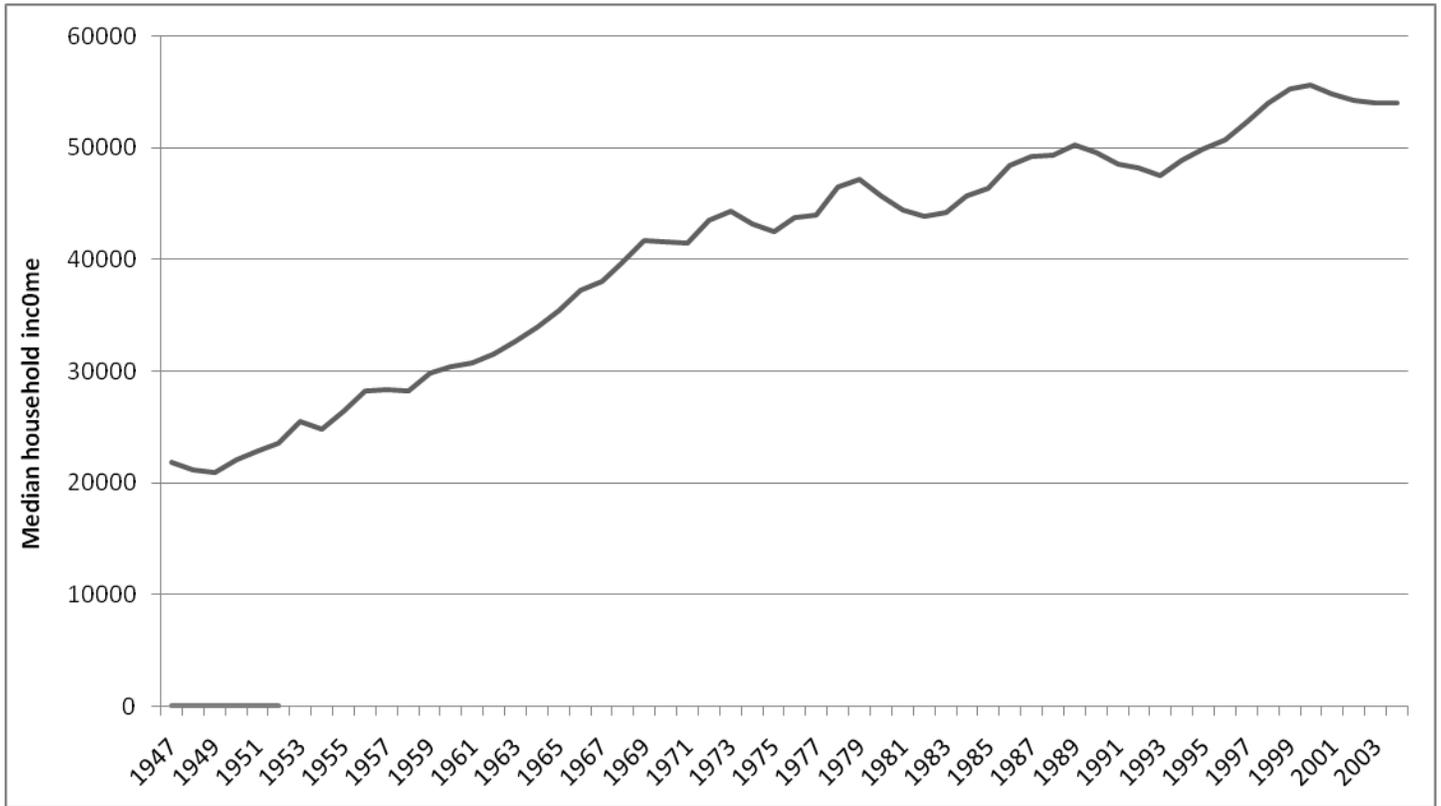
Average real weekly earnings of private production and nonsupervisory workers, 1957-2007 (2007 dollars)



Note: *Income is measured at the upper limit of each income group*

Source: State of Working America, 2006/7 Table 1.10

Figure 9.2
Rate of Growth of family income by income group, 1947-2005.



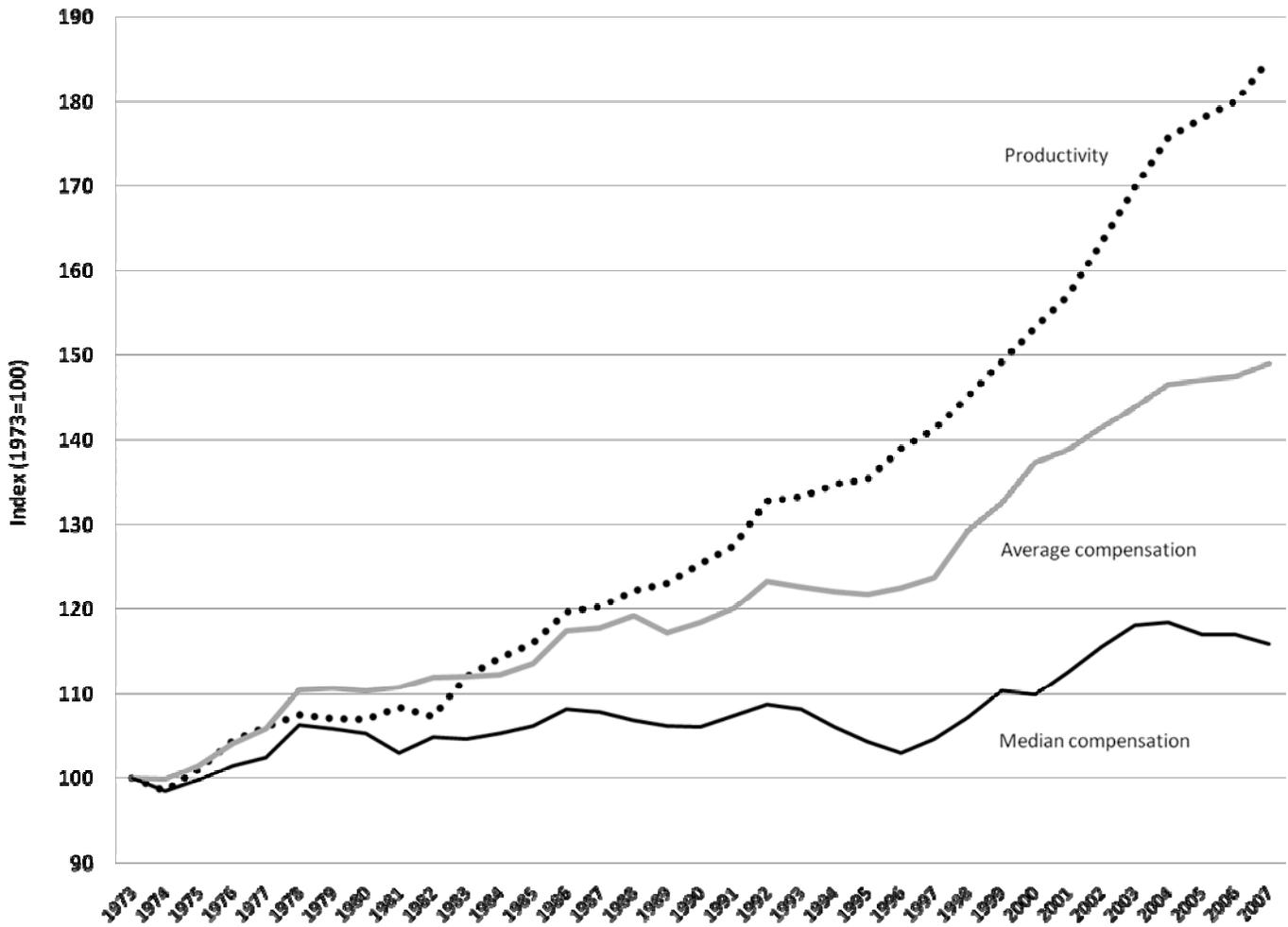
Source:

Figure 9.3
Median household income, 1947-2004



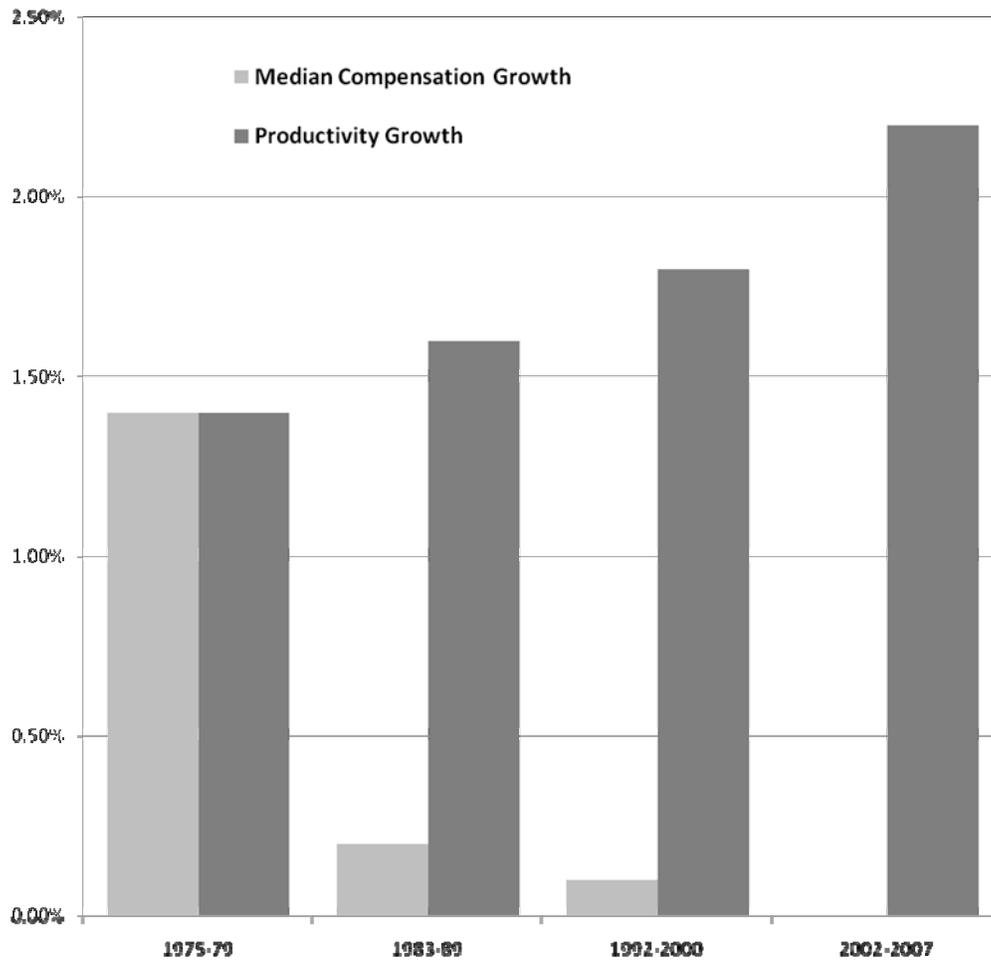
Source: SWA 2008/9. Tables 3.5 and 3.7

Figure 9.4
Median real hourly wages for male and female employees, 1973-2007 (2007 dollars)



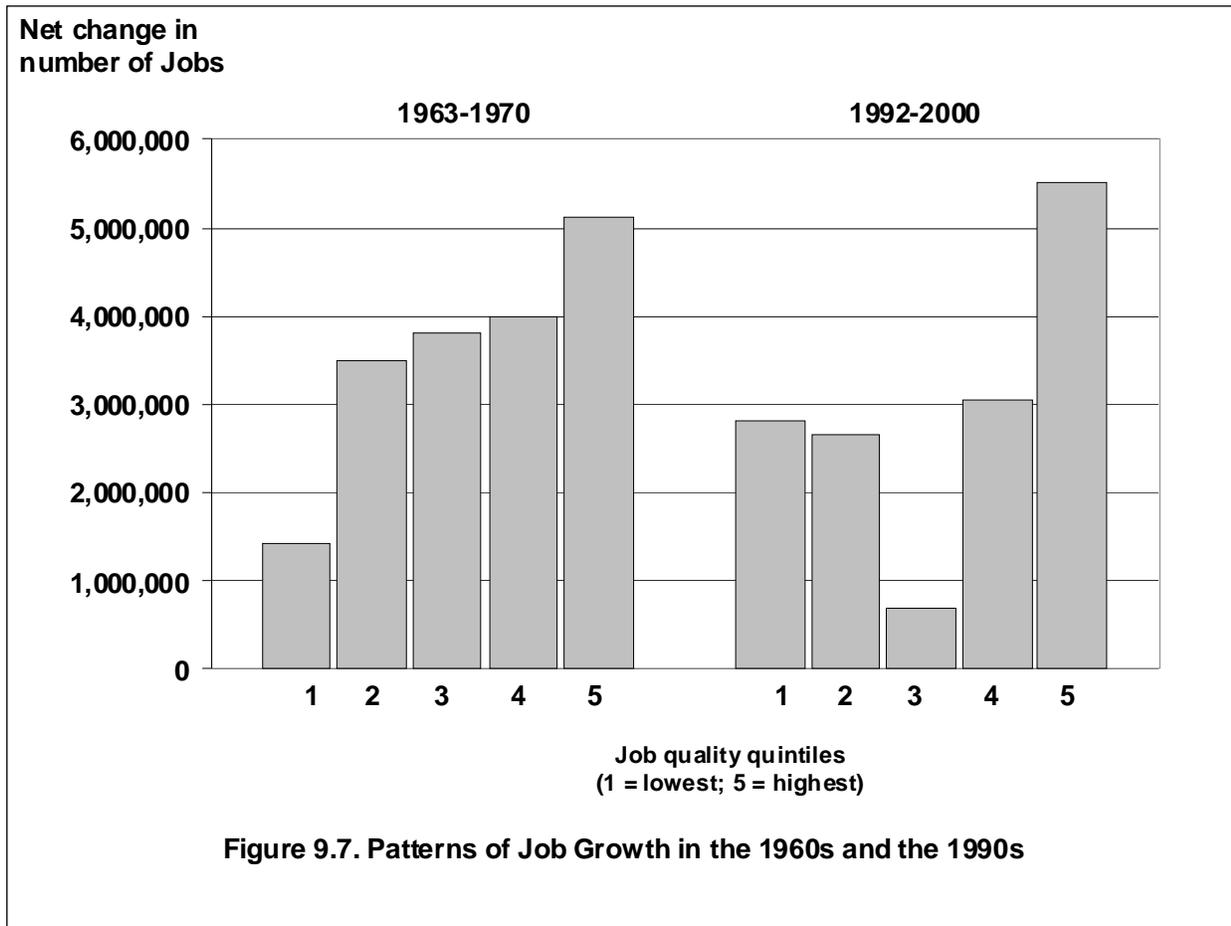
Source: Source: The State of Working America 2008/9, figure 30

Figure 9.5
Trends in productivity and median earnings, 1973-2007



Source: State of Working America, 2008/9 Table 3.1

Figure 9.6
Annual growth rates in productivity and compensation
during periods of economic expansion, 1975-2007



Net change in number of Jobs

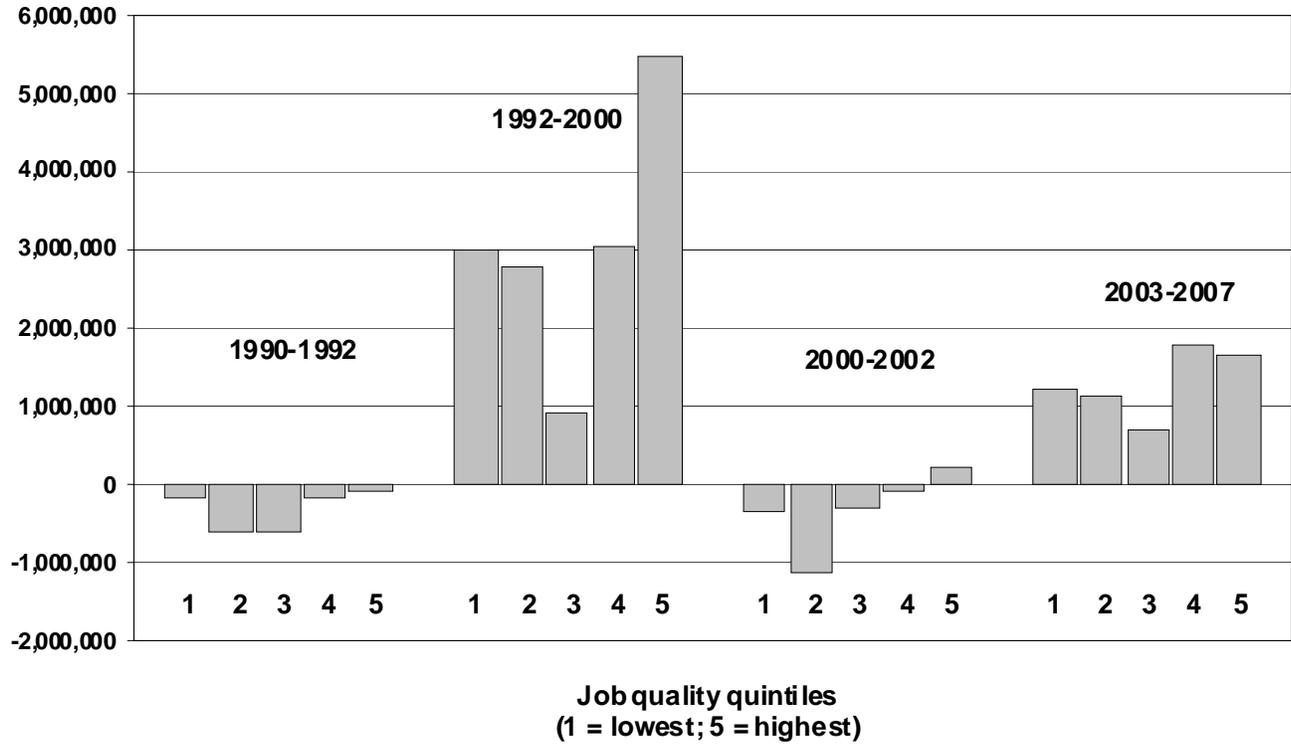


Figure 9.8. Patterns of Job Growth and Decline, 1990-2007

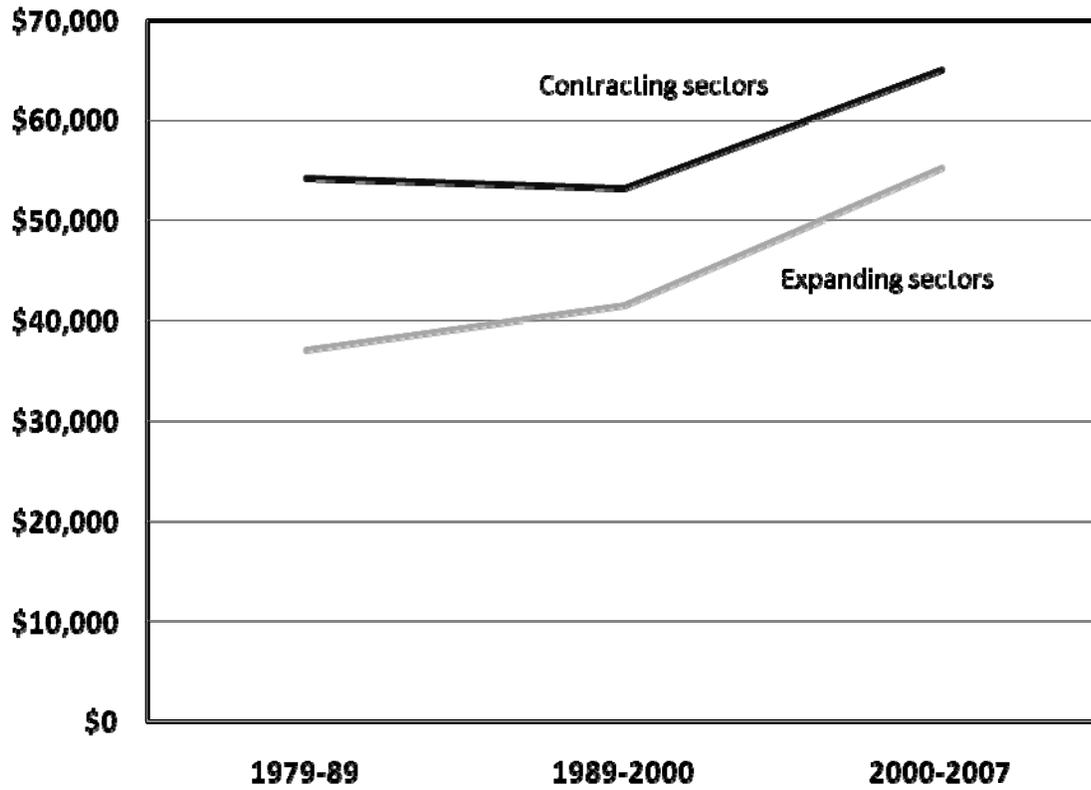
ECONOMIC SECTOR	1979	1989	2000	2007	Hourly Compensation 2005	Percent college graduate, 2005
Goods producing	27.8%	22.3%	18.7%	16.1%	\$29.37	18.6%
Mining	1.1%	0.7%	0.5%	0.5%	\$37.07	15.6%
Construction	5.1%	4.9%	5.2%	5.5%	\$28.48	9.6%
Manufacturing	21.6%	16.7%	13.1%	10.1%	\$29.47	23.3%
Service Producing	72.2%	77.7%	81.3%	83.9%	\$23.58	32.0%
Transportation, utilities	4.0%	3.8%	3.8%	2.7%	\$20.48	16.9%
Wholesale trade	5.0%	4.9%	4.5%	4.4%	\$27.44	25.5%
Retail trade	11.3%	12.1%	11.6%	11.3%	\$15.23	15.9%
Information	2.6%	2.4%	2.8%	2.2%	\$36.38	42.4%
Financial, insurance, real estate	5.4%	6.1%	5.8%	6.0%	\$32.80	39.4%
Other services	26.0%	31.8%	37.0%	40.1%	\$22.86	37.0%
Government	17.9%	16.6%	15.8%	16.1%	\$36.55*	49.4%

*Figure is for State and local government employees only

Source: *State of Working America, 2008/9 Table 3.25*

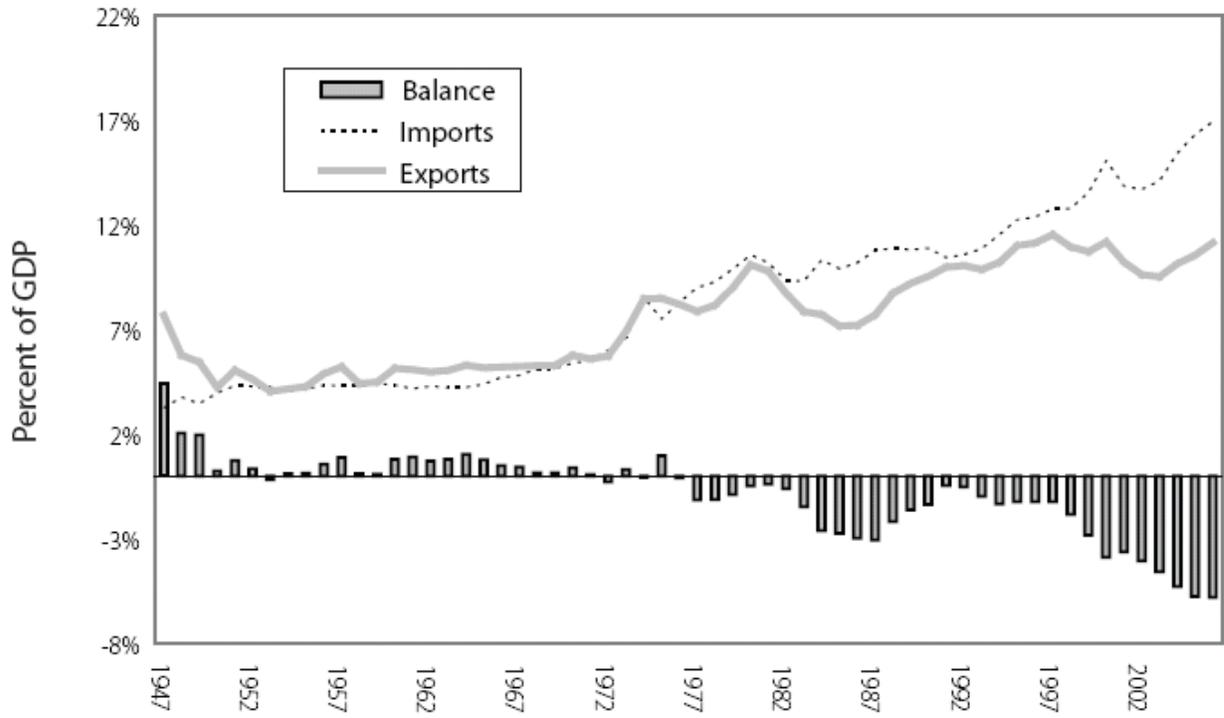
Table 9.1 Employment distribution across economic sectors, 1979-2007

Annual compensation
in unadjusted dollars



Source: *The State of working America, 2008/9* Table 3.26

Figure 9.9
Annual Pay in Contracting and Expanding Economic Sectors, 1979-2007

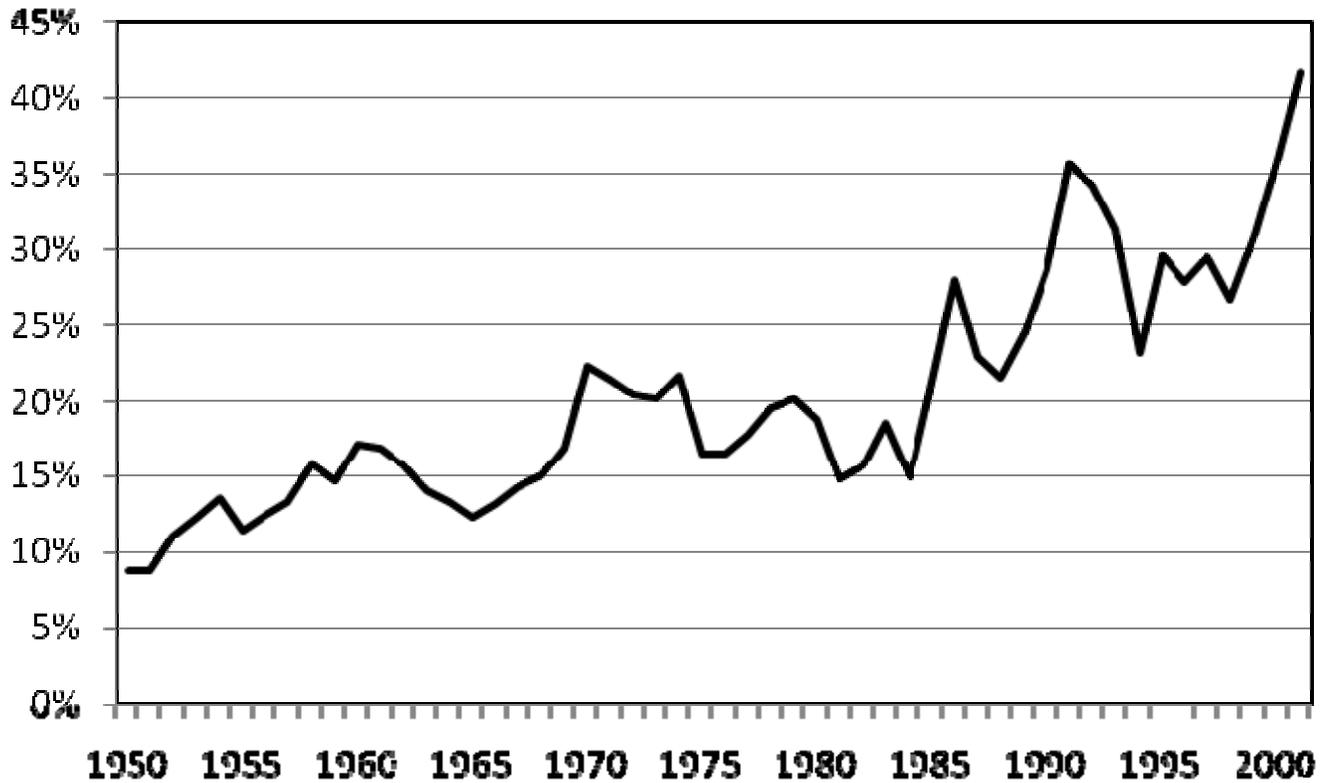


Source: *the State of Working America 2008/9* Figure 3V.

Figure 9.10

Imports, Exports, and trade balance as a percent of GDP, 1947-2007

% of total profits
that come from
the financial



Source: data provided by Greta Kripner

Figure 9.11
Financialization of the American Economy

	“Low Road” Capitalism	“High Road” Capitalism
Competitive strategy	Primarily price	Primarily value (uniqueness, performance)
Product market	Mass goods, homogeneous products	Diversified, high performance goods and services
Jobs	very specialized	multitask
Skill level and scope	Low, narrow	High, wide
Training	Limited, job specific	Extensive, including meta skills
Job autonomy	Low	High
Incentives	Punishment, fear of being fired	Promotions, future job prospects, pay raises, bonuses
Hierarchy	rigid differentiation of managers and workers with many managerial layers	low differentiation of managers and workers with few layers
Wages	relatively low wages	relative high wages
Environment	Low attachment if any	Higher attachment via attention to production waste & concern for community quality
Attachment to place	As little as possible	Higher, given dependence on institutional infrastructure

Table 9.2 High Road and Low Capitalism

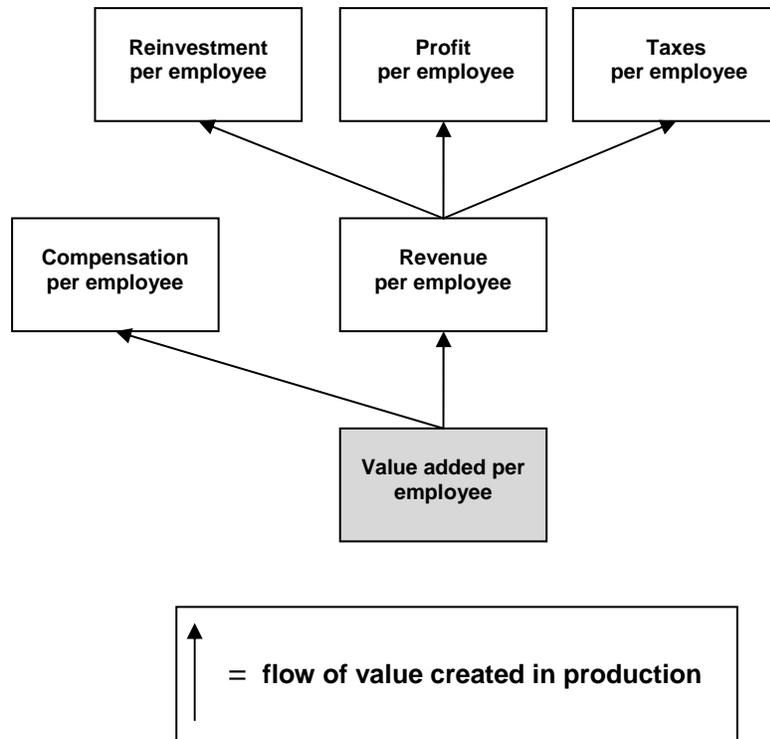


Figure 9.12 Internal Cost Structure of Firm

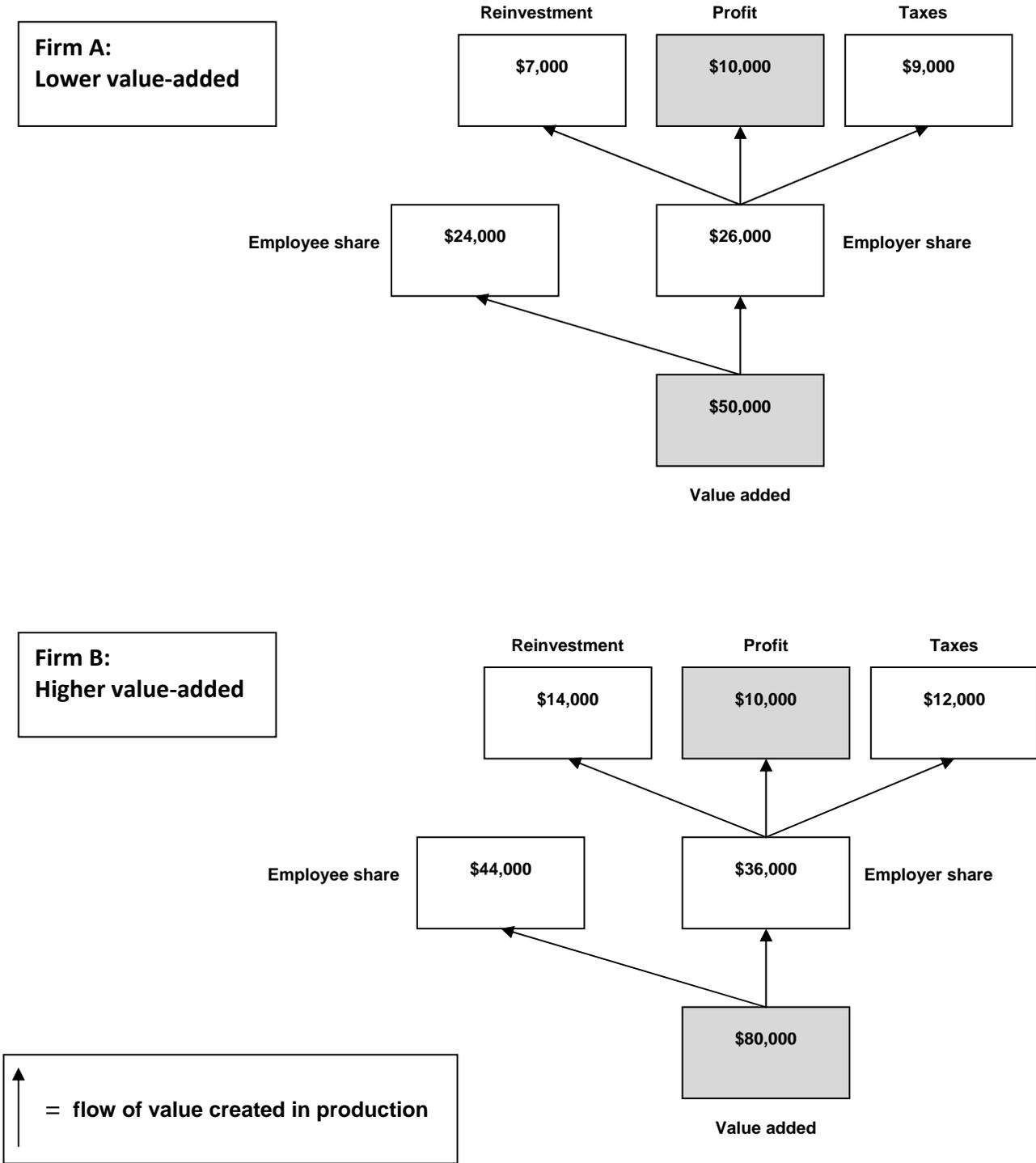


Figure 9.13
Illustration of two firms with same profits per employee
but different amounts of value created in production

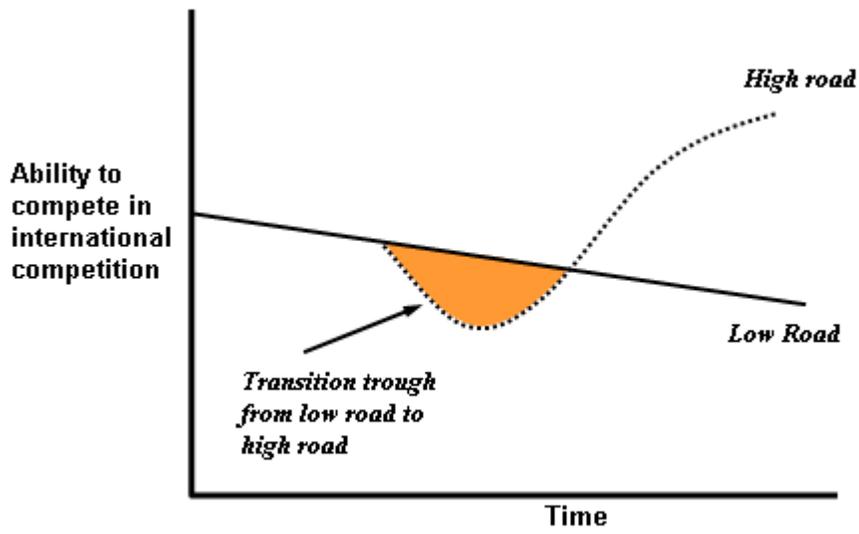


Figure 9.14 The transition cost problem

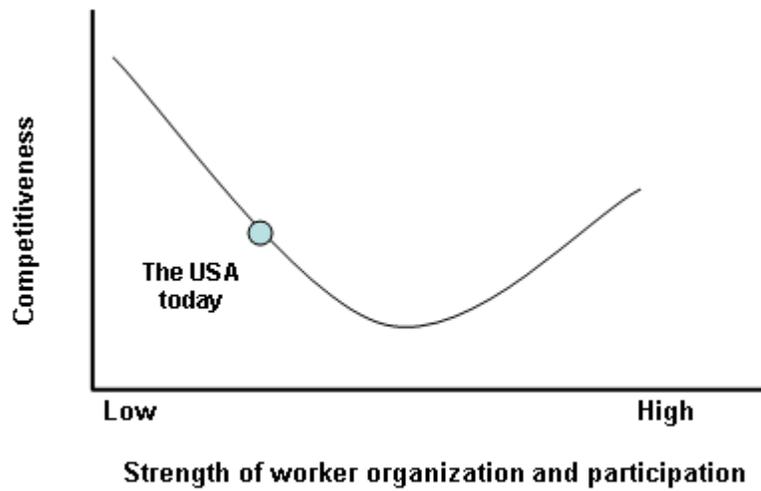


Figure 9.15
The relation of worker organization and participation
to the competitiveness of capitalist firms

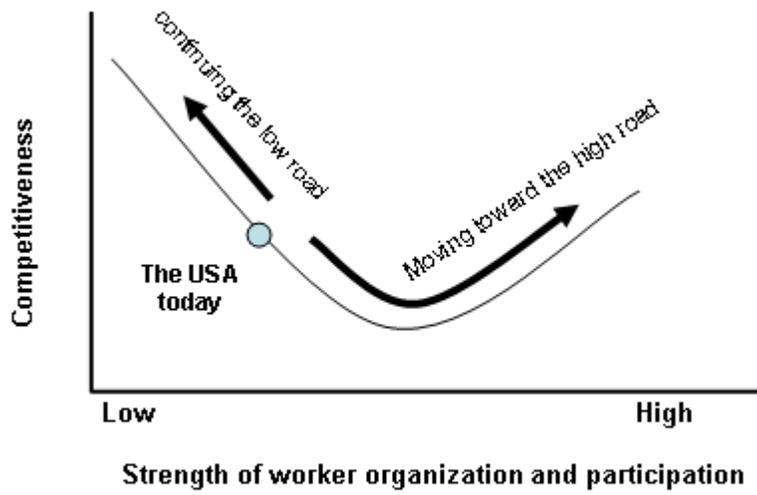


Figure 9.16
Worker organization and high road capitalism



Source: *The State of Working America 2008/9*, Figure 3AA

Figure 9.17
The Real value of the minimum wage, 1960-2009