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 and 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

Data needed for this section: a general portrait of the economic conditions over the past several decades:

- Real wages have declined for the average person. Standards of living are maintained by households working more hours **[data on median hourly earnings, household earnings and hours worked per household]**
- Long term graph of productivity increases and median hourly earnings – showing the divergence
- we have witnessed a steady decline in middle class jobs, especially good paying manufacturing jobs and a growth of poor paying service sector jobs. [Jobs project slides]
- we are losing out to our principle competitors internationally: data on trade deficits over time

- Many manufacturing jobs that previously paid fairly good wages have moved to low wage countries [data on decline of manufacturing employment]

These are all long term trends, reflecting the general performance of American capitalism in the last part of the 20^{th} 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 sector, by technology, by wage structure, by the nature of the markets for which they produce, and so on. Here we want to draw a contrast between two broad types of firms within economically advanced capitalism, which we will call "high road capitalist firms" and "low road capitalist firms". 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 9.1 lays out the basic contrast between high road and low 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 *quality* of what is produced. 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 quality. This means that firms don't worry quite so much about costs. They are more concerned that they produce the best rather than the cheapest.

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 market goods produced in very large batches in which firms produce goods with very similar properties, and more specialized or niche markets in which the characteristics of products vary quite a bit between firms. This contrast is connected to the distinction between competition over price and quality: in mass markets for homogeneous process, the main way that customers distinguish among firms is on the basis of price; in markets for more customized products with distinctive properties, quality plays a bigger role. The first of these corresponds to low road capitalism, the second to high road capitalism.

Jobs. In low road capitalism jobs are organized around very narrow and specialized sets of tasks. Firms hire workers to perform very specific tasks within a detailed division of labor. In High road capitalism jobs involve many different kinds of tasks and often the boundaries across jobs are quite fuzzy. People are expected to be flexible and do many different kinds of things.

Skills. Frederick Taylor, a famous s 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 than 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 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. Often there are 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.

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 actively 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.

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 in the face of global competition, many capitalist firms and investors have found it more profitable to pursue the low road. Global competition, especially from low-wage countries, puts a great deal of pressure on firms to lower costs, and wages are one of the ways of doing this. But, if you want to lower wages and keep them low a firm also need to avoid investments that require high levels of skills and complex meta-training. This means that firms will generally avoid making the kinds of investments that would require significant upgrading of the skill base of their labor force. It also means that overall in the economy a good deal of investment will go into areas of production that require relatively lower skill levels and can be organized efficiently along low-road lines. This does not mean that there will be no investment in high productivity, high skill areas of the economy, but a substantial portion of job creation will occur in low productivity, low skill, low wage activities. These are the patterns we observed in Figure 9.X for job growth in the 1990s and 2000s.

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 thing, 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.X. 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.x --

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 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.x: 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.

-- Figure 9.x and 9.x --

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.x). 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; PAVING 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 – close off the low road; and other policies need to be adopted to make it much easier and advantageous for firms to broadly adopt high road strategies – pave the high road. Both of these require a renewed and reinvigorated role for the democratic affirmative state.

Closing off the low road

Two fairly simple changes in public policies that shape the economic environment of capitalist firms would do much for making it harder for firms to pursue low road strategies. First, substantially raising the legal minimum wage would undermine the ability of firms to pursue low wage job creation strategies. Minimum wage laws are a critical form of state regulation of labor markets, for they prevent employers from creating jobs that would only be profitable if they were paid below a certain threshold. As Figure 9.X shows, in terms of real purchasing power, the minimum wage in the United States reached its peak in 1968 at just under $9.50 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 1960. These figures are really quite astounding, for during this period the overall wealth and productivity in the United States had increased tremendously. If the minimum wage in the U.S. had kept up with the growth of productivity in the U.S. since 1968 it would currently stand at **$28**. Even if had only grown as fast as median earnings (which grew more slowly than productivity), it would now be **$17.** The point is that the minimum wage has lagged so far behind the overall growth in the American economy that it has almost no effect on constraining the economic strategies of firms. In 2008 only about **%4** of the US labor force was actually paid at the minimum wage. This was down from 15% in 1980 and **20%** in 1968. So, the first way to close off the low road is to dramatically raise the minimum wage.

-- figure 9.x --

The second critical policy for closing off the low road is strengthening labor unions. As we still see in more detail in chapter 21, American labor law makes it particularly difficult for workers to form unions. If these laws were liberalized and the balance of power between workers and employers shifted significantly, the unions could play a significant role in preventing firms from pursuing low road strategies.

Paving the high road

If American capitalism is to move systematically towards a high road future, public policy needs to counteract the effects of the three obstacles we have examined: transition costs, deficits in meta-training, and weak collective organization of workers. We have already briefly discussed the third of these: transforming labor law in ways that facilitate unionization would help create the conditions for deeper forms of employee participation in problem-solving within capitalist firms. To reduce the transition cost obstacle, various forms of state financed subsidies (either in the form of tax credits, subsidized loans or outright state grants) need to be directed to firms engaged in the process of technological and organizational transformation towards high road forms. Even more important, it is essential to create a range of public goods that effectively reduce the costs directly faced by firms for moving from low road to high road strategies: transportation infrastructure, improved broadband, technology research and advisory centers, and so on. Finally, to solve the obstacle to high road capitalism created by training deficit obstacle, the state needs to underwrite new forms of skill formation that provide continual, lifelong training for workers that are simultaneous relevant for the jobs which they hold and create the kinds of meta-skills needed to flexibly adapt to rapid technological change. Because of the complexity of such training processes and the importance of them to be tied in to the practical tasks of real work settings, for this to be effective it must involve the active cooperation of employers and workers along with the more formal education institutions of the state and community.

[This section to be elaborated by Joel Rogers]