CHAPTER ONE

Globalization, Interstate Competition, and Labor

IN THE AMERICAN FEDERAL system, the fifty states actively compete for jobs, business investment, and factory locations. Labor costs have played a role in this interstate competition since the days of slavery and the pre–Civil War plantation economy. In recent years, however, global economic trends have put additional pressures on businesses to reduce labor costs. As Levi (2003, 51) notes, "The movement of jobs to locations with low-wage and nonunionized workers, and the consequent race to the bottom, is worldwide."

How have the fifty states responded to an increasingly integrated global economy? Has there indeed been a "race to the bottom" in wages and benefits? If so, what have been the economic and social consequences? Has reducing labor costs led to more jobs, even if these are low paid? Or have some states been able to thrive in the international economy without reducing the living standards of their citizens?

Consider examples of workers in three very different states: Ohio, Arkansas, and Washington. In 1970 a machinist's wife from Dayton, Ohio was the prototypical American voter, according to Wattenberg and Scammon's influential book *The Real Majority* (1970). How has life in Ohio changed for this "typical" woman and her family between 1970 and today? And how do trends in labor costs in Ohio compare with other states?

First, the global context. From World War II until 1970, the United States enjoyed a trade surplus, exporting more than it imported. By 2000, however, the trade deficit was a record $651 billion. Imports from China are cheap and readily available at the local Wal-Mart, now the largest employer in the United States (Slater 2003). But in 1970, the year its stock first went public, Wal-Mart had only thirty-eight stores, mostly in rural

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areas of the South, and it was committed to a "Buy America" policy (*Frontline* 2004).

In 1970, the typical Ohio voter's husband most likely worked for an automobile company and was a member of the United Auto Workers (UAW). At that time, the automobile industry employed 811,000 Americans and the UAW had 1.5 million members; only a few thousand foreign cars were sold. But by 2000, more than 40 percent of cars purchased in America were either imported or assembled by foreign-owned companies such as Honda, which built a huge (nonunion) factory in Ohio in 1982 (Yanarella and Green 1990). Also by 2000, UAW membership had fallen to only 640,000 members, and the proportion of American workers belonging to labor unions had declined to 12 percent, compared with 28 percent in 1970. Labor union membership used to be a good predictor of voting Democratic. In 1970, Ohio was a competitive state: The governor and one U.S. senator were Democrats, while the state legislature and the other senator were Republican. But by 2004, more than 50 percent of white male union members voted Republican. Ohio's governor and state legislature were in Republican hands, and Ohio's well-mobilized Republican voter turnout in 2004 gave the presidency to George W. Bush.[1]

In 1970, our machinist's wife was unlikely to work outside the home; only 41 percent of married women with children were in the labor force. Nor did she need to, because her husband's job paid well enough to place them solidly in the middle class, and his employer's health insurance covered the whole family. They owned their own home (although with a mortgage), owned an American-made car, and without too much difficulty could send their children to college; tuition at Ohio State University was only $1,500 a year.

By 2000, however, the proportion of married women in the labor force had risen to 63 percent. In part, this occurred because of gains by the women's movement, falling birthrates, and a much higher proportion of women attending college. But it was also a matter of economic necessity, because men's wages had stagnated since the 1970s. So our machinist's wife was likely to be working at least part time, perhaps at Wal-Mart (which now has eight supercenters in the Dayton area), or at another retail or service job, in order to be able to afford the mortgage, car payments, and college tuition. Ohio State University tuition had risen to $7,500, at a rate far faster than the overall inflation rate or the actual cost of instruction. Access to college has thus become much more difficult for working-class families.[2]

The machinist's wife might also be working today because her husband has been laid off. Manufacturing employment has declined sharply in Ohio

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since 1970, and several major factories in Ohio (Rubbermaid, Goodyear, Big Three automobile factories and suppliers) have closed. Her husband might have received unemployment benefits for a time, but if he did find work it was probably with lower wages and fewer benefits; in 2005 nonunion Wal-Mart employees in Dayton averaged $8.50 per hour and worked an average of twenty-eight hours per week. Also, the family is less likely to have health coverage; 45 million Americans (many of them Wal-Mart employees or other adults working full time) lacked health insurance in 2005.

Because the jobs available for both husband or wife pay so little, either or both may now be working two jobs to make ends meet. This of course means less time for the children, vacation, and recreation, or for social or political activities (Schor 1991; Warren and Tyagi 2003). Two-income families may still be able to approximate a middle-class lifestyle on credit; average credit-card debt in the United States today is more than $7,500 a person, and many owe thousands more for home mortgages, car leases, or student loans. Total credit charges increased by 350 percent between 1990 and 2003, but total personal income over that time span increased only 188 percent (Walker 2004). Consequently, rates of personal bankruptcy and mortgage foreclosure are at record levels, and many working families are only one paycheck (or one medical crisis) away from these unfortunate outcomes.

Though Ohio may have been typical in 1970, its workers were not faring well in 2005. In fact, Ohio lost more manufacturing jobs than any other state between 2000 and 2004 (AFL-CIO 2004), and it has been losing population to faster-growing Sunbelt states. But what of workers in other states? Consider an employee of a poultry-processing plant in Arkansas. These jobs have high injury rates but are not unionized, and wages are well below the national average (in 2000, $11.98 an hour, compared with $16.32 in Ohio). These factors have encouraged major producers like Tyson Foods to expand operations in northeastern Arkansas.

A recent surge in Hispanic immigration has added to competition for employment; Arkansas ranks second only to North Carolina in its percent increase in immigration since 1990. Also, Arkansas (unlike Ohio) is a right-to-work state. This means that even if workers at a plant vote to join a union, they cannot be required to pay union dues; such states tend to have much lower levels of union membership. Union membership in Arkansas in 2000 was only 5.8 percent, compared with 24 percent in Ohio. However, despite its right-to-work law, low wages, and low taxes, Arkansas has been losing manufacturing jobs overall.

Furthermore, Arkansas ranks thirty-sixth among the fifty states in the value of its exports. Although foreign investment has quadrupled in the

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United States since 1978, little of this has gone to Arkansas. Wal-Mart's headquarters is located in Bentonville, and members of founder Sam Walton's family still live here. Several of them are now billionaires. But per capita income in Arkansas still ranks among the lowest in the United States (forty-seventh out of fifty in 2004), and a high proportion of its families and children live below the official federal poverty line. As in most other southern states, voter turnout is low. Once solidly Democratic, Arkansas has been electing more Republicans to the state legislature. Although Bill Clinton served as governor of Arkansas for more than twelve years, the state now has a Republican governor, Mike Huckabee.

But the states include winners as well as losers in the global economy. Our third example is an aircraft worker in Washington State, which in 2000 led the United States in manufacturing employment as a percent of the labor force. Washington has benefited from commercial purchases of Boeing jets as well as from exports of military aircraft, and it is one of the leading states for prime contracts from the Defense Department. Our skilled aircraft worker is likely to be a union member and to earn even more than manufacturing workers in Ohio. Washington has a high proportion of its manufacturing workforce unionized (23 percent in 2000), and it pays high wages in manufacturing. Although the state has no income tax, its tax burden is the highest in the United States, and it provides generous benefits for workers' compensation, welfare, and unemployment. But clearly neither high wages nor high taxes constitute barriers to a strong position in exports. Unlike Ohio and Arkansas, both "red states" that supported George W. Bush in 2000 and 2004, Washington is a "blue state" and reliably Democratic, with two Democratic senators and a Democratic governor (all female) in 2005, as well as a Democratic state legislature. Its voter turnout is also among the highest in the United States.

The United States as a whole has become much more closely linked to the global economy since 1970. International trade (exports plus imports) now accounts for 20 percent of gross domestic product, compared with only 8 percent in 1970. As of 1990, 20 percent of American workers were employed in export-related industries, although that proportion has declined considerably since then because of the growing trade deficit.[3] Yet as these three examples illustrate, the American states differ considerably in wages, levels of unionization, and the impact of the international economy. Though few Americans today are immune to global influences, workers in some states are far more vulnerable than others to competition from abroad.

The purpose of this book is to explore these state differences. The states have gained increased responsibility in a number of policy areas since the

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1970s, including health, the environment, welfare, corrections, and education. Most observers credit the states with increased capacity for governance and administration.[4] But do the states have the capacity to foster economic growth in an increasingly global economy? According to many observers in academia and the media, no nation, region, state, or municipality is immune from the impact of the increased mobility of global capital. Multinational corporations can readily shift investments, production, jobs, plants, or research and development to locations that offer lower wages, lower taxes, or weaker environmental or safety regulations.

Social science research, however, has found marked differences in how countries have responded to the predations of global capitalism. Some argue that the United States, with its liberal free-market tradition, open economy, and small welfare state, has been much more vulnerable than most European countries to pressures to reduce taxes and lower labor costs (Wilensky 2002; Kollmeyer 2003). But as this book shows, data on economic trends for the United States as a whole mask considerable differences among the states. Unlike in more centralized European countries, in America taxes, government spending, and labor costs are shared responsibilities of the state and federal governments. Yet as the examples just given show, the states doing well in the global economy are not the low-tax, low-wage states like Arkansas but the states with better-paid, better-educated, more productive workers like Washington.

The states have indeed reduced taxes and the cost of labor since the 1970s, but some far more than others. Is globalization responsible? As this book argues, domestic political factors are a more proximate explanation; the states (and nation-states as well) can choose how to respond to international economic trends. In an era of declining voter turnout, weak labor unions, and increasing Republican dominance of both state and federal elective offices, the "global economy" has provided a compelling rationale for policies designed to benefit business interests and weaken the bargaining power of labor. The promise of "creating jobs" has persuaded Americans of all political and social backgrounds that lower taxes and lower labor costs are necessary to enhance competitiveness. But do state efforts to cut taxes and labor costs actually create jobs? If so, what kinds of jobs are attributable to these policies? And what are the social and political consequences of Americans working longer but earning less?

This book attempts to answer these questions by examining trends in state labor costs since 1970. I first describe the multiple ways in which the fifty American states influence the cost of labor. I argue that state latitude in labor policy has been an important reason why labor costs in the United

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States have tended to be far lower than those in other industrial democracies. I develop a comprehensive measure of state labor costs for the period 1970 to 2000, and I use this measure to explore reasons why some states have reduced labor costs far more than others. I also use this measure to assess the economic and social consequences of the overall decline in state labor costs since 1970. The results highlight the difficult choices American states must make in response to global economic trends, and they suggest some policy alternatives to the low-wage strategy.

In this chapter, I first review the historical and theoretical rationales for an analysis of state labor costs. I then consider six explanations for low and declining labor costs in the United States: globalization, the weakness of the American labor movement, demographic trends, the role of state and federal courts, the size of the welfare state, and the lack of institutions to coordinate business, labor, and public policy. I next describe how interstate competition in a federal system has exacerbated each of these factors. The chapter concludes with an outline of the argument to be set forth in subsequent chapters.

LABOR COSTS AND STATE COMPETITIVENESS

Labor constitutes a large proportion of the factor costs of most business enterprises. In addition to wages and salaries, government taxes and regulations (payroll taxes for health or pension benefits, minimum-wage and overtime laws, workplace safety and environmental policies) constitute the "social wage" that increases labor costs. Of course, employers have generally been critical of any public policies that might increase the cost of labor and thus threaten their profits. And they have often put pressure on governments to help them reduce the cost of labor.

Globalization has added new urgency to business concerns. A standard neoliberal argument in economic theory holds that as the cost of labor increases, fewer workers will be hired, unemployment will rise, and businesses will relocate to low-wage regions.[5] Benería (2003, 2) describes the "Washington consensus" articulated in the 1980s by the World Bank, the International Monetary Fund, and the Ronald Reagan and the George H. W. Bush administrations: critiques of government intervention in the economy and hostility to labor unions, combined with support for market deregulation, dismantling of the welfare state, privatizing state-owned enterprises, trade liberalization, and open doors to international investment and corporate mergers.

In theory, advanced industrial countries will be constrained to reduce labor costs to keep jobs and capital from flowing to low-wage developing

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countries. In practice, however, countries differ considerably in their responses to the global economy; political and social institutions mediate the effects of international competition for capital.[6] Porter (1985, 2002) argues that advanced industrial economies have a competitive edge in the international economy. Low-wage, low-skill jobs may indeed move elsewhere, but gains in productivity and technology should be compensated with high wages and rising living standards. Volgy, Schwarz, and Imwalle (1996) found that countries where workers had greater political power were able to maintain wages despite ties to the international economy. But in weak-labor countries, workers have failed to reap wage gains commensurate with productivity increases. In the United States, labor unions' strong resistance to the North American Free Trade Agreement (NAFTA) and to most-favored-nation trading status for China reflects their concerns with job losses and stagnant wages.

The American states provide an ideal laboratory in which to test these competing findings concerning the impact of globalization. In the United States, the federal government collects payroll taxes for Social Security and Medicare. But other policies that influence the social cost of labor (unemployment insurance, workers' compensation, union regulation, minimum-wage laws, workplace safety) are affected by state as well as federal political choices, and vary considerably across the states. As I show in this book, state policies have an independent effect on both labor costs and on economic outcomes, even when the impact of federal government policies is taken into account. And interstate competition over labor costs may be a major reason why labor costs and the "social wage" (taxes and regulations that affect the cost of labor) have risen so much more slowly in the United States than in Europe since the 1970s.

The states vary considerably in policies affecting the cost of labor. Though states actively compete for investment and factory locations by means of tax subsidies, regulatory relief, and other incentives for business, labor costs continue to play a major role in interstate competition. Even after the Civil War put an end to slavery, the South remained a low-wage region. Most southern states have been hostile to unions and have kept employee and welfare benefits low in order to give employers more control over the labor force (McCrate 1997). The federal minimum wage adopted during the New Deal represented an effort to raise southern wages and improve living conditions in the South (Paulsen 1996). This was strongly resisted by low-wage states, which felt they would lose an important comparative advantage. Personal income in the South did rise relative to the rest of the country, particularly after the New Deal (Bernat 2001). But considerable differences in wages and unionization remain between North and South.

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Several eastern and midwestern states, however, have a long history of efforts to improve workplace conditions and job security. Populists, Socialists, and Progressives in states such as Wisconsin advocated policies designed to enhance union strength, invest in human capital, limit child labor, and protect workers' health, pensions, organizing rights, and job security.[7] Many states have also adopted minimum wages above the federal minimum and provided generous benefits for unemployment and workers' compensation. In states such as Michigan and Pennsylvania, union density is nearly as high as in the "strong worker power" states identified by Volgy, Schwarz, and Imwalle (1996), who otherwise rank the United States low in worker power. Yet many other states (especially in the South) come closer to the liberal-market economy norms attributed by Swank and Wilensky to the United Kingdom and to the United States as a whole. The American states thus provide an ideal laboratory for examining the economic and social effects of labor costs.

The fifty American states also vary greatly in their links to the global economy. Of course the states are not fully independent international actors, as are the sovereign states of Europe, Asia, and Latin America. Yet in recent years, state policies have played an increasingly active role in setting the terms of trade between their local or regional economies and the international marketplace.[8] Still, some state economies are far more dependent than others on exports, immigration, and foreign investment. These include large industrial states with high concentrations of foreign investment and immigrant populations (California, New York, New Jersey) as well as several southern or midwestern states in "automobile alley," where major Japanese or German automobile plants have located since the 1970s. A few states also account for the bulk of American exports in manufacturing or agricultural products, whereas states bordering Canada or Mexico have experienced increased trade since the passage of NAFTA in 1993. But in many states, only a small proportion of employment or commerce can be directly linked to international trade or foreign investment.

Given this wide variation, we can use data on the American states to explore the relationship between links to the global economy and trends in state labor costs. Do low or declining labor costs convey a competitive advantage in exports or foreign investment? Have the states most closely connected to international trade experienced the greatest pressure to reduce labor costs and constrain union power, or do these policy trends reflect domestic political factors? The answers to these questions can not only contribute to the ongoing debate over the impact of globalization but can also suggest state or national policy measures that might enhance state eco-

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nomic growth or employment trends, and thus mitigate the impact of the international economy.

In this book, I examine trends in state labor costs since 1970, and I assess the economic and social impact of the decline in manufacturing wages, labor union density, and social policies benefiting workers. I consider a range of state economic outcomes (growth in gross state product, personal income, productivity, exports, and foreign investment) in addition to trends in job creation and unemployment. Many U.S. government policies influence labor costs as well, including the payroll tax used to finance Social Security and Medicare, federal minimum-wage laws, and federal regulations that affect workers' rights and labor union activity. Democratic and Republican presidential administrations also differ considerably in their labor policies. In addition, federal defense spending has a profound impact on state economies; the geography of defense contracts and military base closings can influence state economic trends, and military goods constitute a significant proportion of American exports. My results will demonstrate, however, that state labor costs have an independent impact on state economic and social trends even when these federal policies are taken into account.

The evidence presented here challenges the theory that cutting the cost of labor will enhance competitiveness; states with high labor costs are in fact doing better with respect to economic growth, exports, and foreign direct investment. The strong link between high labor costs and productivity growth provides a competitive advantage in the increasingly specialized global economy. But reducing labor costs has had adverse social consequences in the states: slower rates of job creation, slower declines in poverty rates, stagnant growth in personal income, rising inequality, lower voter turnout, higher crime and suicide rates, and instability in family life. Many states are indeed pursuing a "race to the bottom" in terms of labor costs and social policies. However, these trends are not justified by either globalization or economic benefits.

THEORETICAL FOUNDATIONS

Several theoretical frameworks have been used to guide this analysis. The first is drawn from the literature on globalization. Its theories predict policy convergence across political units and a race to the bottom as states compete for highly mobile capital by reducing the size and costs of the public sector, enhancing productivity, and limiting labor costs. As already noted, considerable research has been done in economics and political science to examine the impact of globalization, with highly divergent results.

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The second framework is provided by analysts of American federalism. The logic of interstate competition within the federal system functions (and, it can be argued, was designed to function) as a major constraint on labor costs long before the pressures of globalization entered the political equation. According to Tiebout's Law (Tiebout 1956), the creation and maintenance of subnational jurisdictions permit people and businesses to "vote with their feet" and to locate in areas that provide their optimal mix of taxes and services. Following this logic, Peterson (1995) argues that because of interstate competition for business and population, state and local governments are unlikely to be able to pursue policies to redistribute income (progressive taxes, generous welfare benefits) because businesses and wealthy individuals would simply move to lower-tax areas. He further argues that states should invest in policies likely to foster economic development, especially infrastructure and education (although he does not consider labor costs).

The third framework is drawn from analyses of national and subnational differences in economic trends, particularly the role of governments in fostering or constraining growth in income, productivity, and employment. Much political and economic research in this area has been based on nation-states (both industrialized countries and developing nations), but the literature on comparative state politics has also considered the economic trajectories of the American states. Since the stagflation era of the 1970s, states have taken a far more active role in economic development. Debate continues over the role of state/local taxes in economic growth, but newer strategies (industrial and entrepreneurial policies, the states' role in the international economy, investments in human capital) have attracted critical attention to both their political rationale and their economic effects.[9]

The fourth framework derives from studies of the emerging European Union (EU). Beginning in the years after World War II, many Western European countries took steps to diminish barriers to trade, culminating in a common currency (the euro) and the creation of a supernational parliament, judiciary, and executive. There are obvious parallels to the creation of the United States from the original thirteen colonies and to the historic debates over the relative powers of the central government versus the member states (Sbragia 2005). Proponents of the EU hope to foster growth and productivity by reducing barriers to trade and competition among member states for business, investment, and population. The EU includes high-wage as well as low-wage areas (especially since its recent expansion into Southern and Eastern Europe). But unlike the United States, the EU has made conscious efforts to restrain competition among member states and to minimize any race to the bottom in terms of labor costs or social policies.

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These four frameworks are used here to address two core political questions: Why have labor costs *declined* in most states since the 1970s? And why have they declined in some states far more than others? Proposals to reduce wages or benefits are unlikely to be winning campaign issues in state elections. Survey data show that public support for labor unions and for a higher minimum wage has remained high, even as union membership has dropped and wages have stagnated. So we must find explanations for widely shared policies that have been adopted without much evidence of popular support.

Clearly, the influence of business interests in the states cannot be discounted. And the logic of interstate competition may force governors and legislators to adopt policies even if they (and the voters) would prefer otherwise. We must also consider how policies to reduce labor costs have been packaged and "sold" to legislators or voters. As I will show, the rhetoric of globalization has frequently been used to justify reductions in labor costs, even though states with higher labor costs actually perform better in terms of international trade. The "jobs" mantra has proven to be a potent political symbol to gain public acceptance for (or at least acquiescence with) a number of social and fiscal policies with little popular support.

LABOR COSTS: WHY SO LOW IN THE UNITED STATES?

The Organization for Economic Cooperation and Development (OECD) has compiled an index of labor costs in advanced industrial societies.[10] This index includes not only wages paid by employers to employees but also the "social wage": the cost of various welfare state benefits, such as pensions, health care, mandated vacations, unemployment, and paid parental leave, which are imposed on employers through taxes and regulations (costs such as pension contributions are sometimes shared by employees as well). According to the OECD's indicator, labor costs since 1970 have tended to be far lower in the United States than in most European countries (figure 1.1). This reflects the smaller size of the American welfare state, particularly the absence of comprehensive health benefits, and the corresponding lower tax burden on both businesses and their employees (Wilson 1998).

The OECD also charts trends in employment for its member countries. John Schwarz (1988) cited high job-creation rates as a major indicator of America's "hidden success," and Wilensky (2002) considers the "great American job machine" to be a prominent example of American exceptionalism among the nineteen "rich democracies" he analyzes. As figure 1.2 shows, the United States has indeed outperformed Europe in

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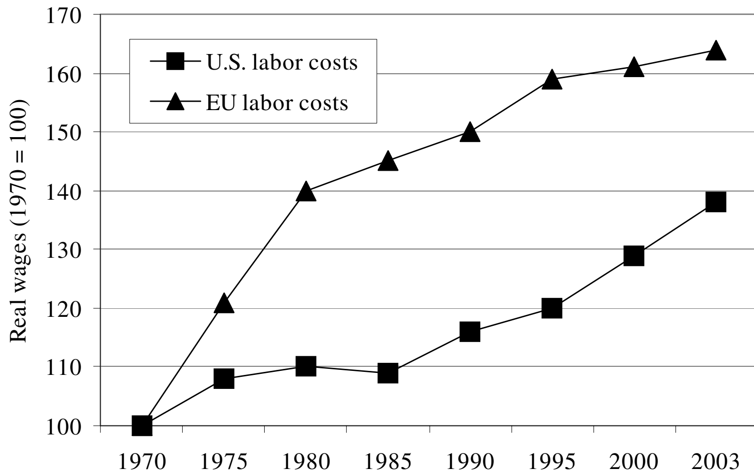
Figure 1.1
Labor Costs, 1970–2003



Note: Labor costs have been lower in the United States than in Europe.
Source: Organization for Economic Cooperation and Development databank, 2004.

creating new jobs, at least before 2000.[11] Economists (Siebert 1997) and the OECD's own analyses (OECD 1995, 1999) have blamed such "Eurosclerosis" on high taxes, too-generous welfare state benefits, and restrictions on the ability of employers to fire workers without advance notice and generous severance pay.

A comparison of figures 1.1 and 1.2 might suggest a direct causal relationship between labor costs and trends in job creation. As scholars have observed, however, other factors, including a larger internal market, faster population growth, and high levels of in-migration, also account for the faster growth in the U.S. labor market (Wilensky 2002). In chapter 4, I will examine the empirical relationship between labor costs and job growth in the American states. Job creation is indeed slower in states with high labor costs. However, as Wilensky (2002, 504) argues, "If employment expands because of a rapid creation of low-paid service jobs, an increasing number of them part-time or taken by people looking for full-time work; because of stagnant or declining real wages; and because of increases in the rate of family breakup, while productivity increases fade and trade balances deteriorate, we can ask, is this progress?"

In Wilensky's view, real wage decreases are achieved by labor crunching and union busting, mass insecurity, industrial conflict, unproductive welfare

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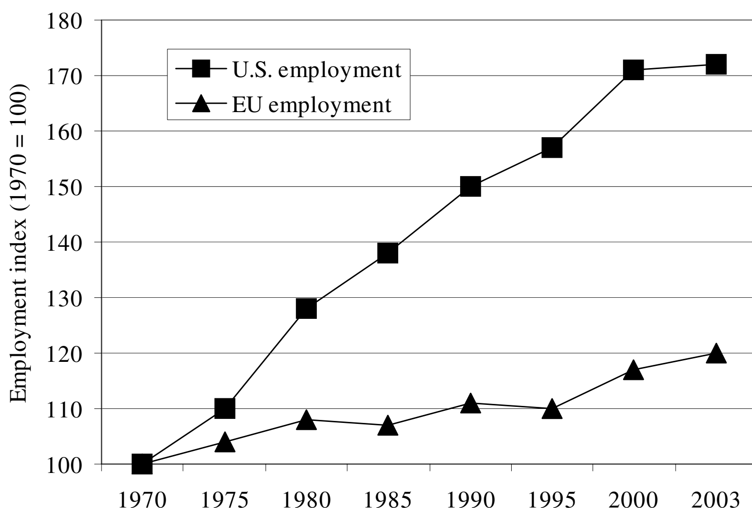
Figure 1.2
Employment, 1970–2003



Note: Employment has grown faster in the United States than in Europe.
Source: Organization for Economic Cooperation and Development databank, 2004.

spending, high rates of divorce and abandoned children, high crime rates, and the feminization of poverty. Wilensky asks whether this brew should be labeled a "superior record of job creation." And in chapter 5, I will show that the adverse social consequences of reductions in state labor costs are not outweighed by higher rates of job creation.

But first we must explain why labor costs are so much lower in the United States. In this section, I consider six explanations that have been extensively analyzed in previous research: globalization, the weakness of the American labor movement, the role of the courts, demographic trends, the characteristics of the American welfare state, and the lack of coordinating institutions. I then consider how each of these has been exacerbated by interstate competition in the American federal system.

Globalization

Recent advances in communications and technology have made capital far more mobile than labor. The United States has become increasingly integrated into the global economy. Until the early 1970s, the United States

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was a net exporter of goods and services, but the balance of trade has grown increasingly negative since then. American firms and employees have thus come under growing domestic and international pressure to cut wages and benefits in order to make American industry competitive in the global marketplace.

In theory, the increasing global mobility of capital should pressure countries to reduce their tax rates, minimize regulatory burdens on business, and constrain labor costs. In practice, however, domestic politics and policies mediate the impact of the international economy on a country's labor force (Swank 2002; Drezner 2001; Wilensky 2002; Garrett 1998; Katz and Darbishire 1999). Even small countries have resisted pressures to cut labor costs. Sweden, for example, has high taxes and generous welfare policies, and pays high wages, yet it is very open to international trade and actively supports its export sector (Steinmo 1993). Sweden also provides financial and housing assistance to help displaced workers relocate to areas with a higher demand for labor.

As I will demonstrate in chapter 3, the American states most open to the international economy actually have higher labor costs than states less focused on exports or imports. Because globalization cannot fully account for these differences across countries or states, we must look elsewhere to explain the faster rate of decline in labor costs in the United States.

The Weakness of American Labor

Historically, the American labor movement has lagged far behind that of most European countries. The emerging labor movement was internally divided by conflicts over race and immigrants, as well as differences in strategy and philosophy between the craft unions of the American Federation of Labor (AFL) and the industrial-union approach favored by the Congress of Industrial Organizations (CIO). Labor leaders such as Samuel Gompers explicitly rejected the idea of a separate labor party, preferring to work within the two major parties; and the American single-district, first-past-the-post electoral system discourages third parties. Although socialist candidates have occasionally made a strong showing (Eugene V. Debs in 1918, Henry Wallace in 1948), no viable socialist or labor party has emerged at the national level (although socialists have won a few elective offices in some states and cities, e.g., New York, Wisconsin, and Milwaukee).

In comparison with other industrialized countries, the United States has a very low proportion of its workforce belonging to labor unions. Furthermore, this proportion has declined by more than 50 percent since its peak

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in the early 1950s—a rate of decline higher than in any other industrialized country (Scruggs and Lange 2002; Wilensky 2002).

Why is the labor movement in the United States so weak? Standard explanations include the organizational strategies of the American labor movement, the lack of a viable labor party, and the limited appeal of socialism in an individualistic country (Lipset and Marks 2000). Sexton (1991) attributes union weakness to active repression, both legal and extralegal, by businesses, their legal advisers, and Republican presidential administrations. Countries like Belgium, which utilize labor unions to finance and administer unemployment insurance (the Ghent system), thereby provide selective benefits to encourage workers to join a union. Unionization rates are indeed higher in such countries (Ebbinghaus and Visser 2000).

The structure of American industry has also changed since the 1950s, with much less emphasis on heavy manufacturing in large-scale plants. American unions have thus lost many members in declining industries like coal mining, steel, and automobile manufacturing, and they have found it far more difficult to organize white-collar workers or service employers. Yet other industrialized countries, such as Canada, have also lost manufacturing jobs, but have not experienced a commensurate decline in levels of unionization (Scruggs and Lange 2002).

The position of American labor was further weakened by actions of the Reagan and both the George H. W. Bush and George W. Bush administrations. When President Reagan fired the striking air traffic controllers in 1981, the message to labor was clear: Work stoppages were risky, and people who wanted to keep their jobs had to be prepared to accept cuts in wages or benefits (Nordlund 1998). In fact, according to Bureau of Labor Statistics data, the number of strikes in the United States has fallen sharply since 1980. Also under Reagan and both Bush administrations, appointees to the Department of Labor were mostly sympathetic to business. Responses to complaints of unfair labor practices were long delayed and were more often decided in favor of employers. The secretary of labor under the current George W. Bush administration, Elaine Chao, has placed far more emphasis on combating alleged union "corruption" than in addressing unfair labor practices by business.

As a consequence of both industrial challenge and concerted legal and political opposition by the Reagan administration, American unions by the 1980s were in no position to counter pressures for "give-backs" in wages and benefits. As Golden (1997) has shown, union leaders often gave in to such demands because seniority rules protected their own jobs. But unions themselves have also been criticized from within for not dedicating sufficient

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resources to organizing. Union efforts were sometimes devoted to raiding members from other unions rather than to recruiting unorganized workers. John Sweeney, of the Service Employees International Union, was elected president of the AFL-CIO in 1995 on a platform pledging to put much more effort into organizing additional workers. But as of 2004 no net increase in labor union membership had occurred, in part because the ongoing loss of union jobs in manufacturing outweighed some organizing gains in the public sector and among service workers. And in 2005 several large unions left the AFL-CIO because of disagreements over the scope and pace of Sweeney's organizing efforts.

The Role of American Courts

Historically, the U.S. state and federal courts have not been helpful to labor. As Skocpol (1992, 226) notes, "American trade unions were profoundly threatened in their very organizational existence by the aggressive use of court injunctions against strikes and boycotts." Before the 1930s, the Supreme Court consistently upheld the right of "freedom of contract" under the Fourteenth Amendment. This meant that if a worker disliked the wages, hours, or working conditions an employer demanded, he or she was free to seek employment elsewhere. By this legal logic, union organizing and collective bargaining would only interfere with individual freedom and due process. Both state and federal courts thus struck down laws to limit hours or overtime, establish minimum wages, improve worker safety, or even restrict child labor (Berry 1986). As the Supreme Court stated in its *Lochner v. New York* decision (1905), "There must be more than the mere fact of the possible existence of some small amount of unhealthiness to warrant legislative interference with liberty. Limiting the hours in which grown and intelligent men may labor to earn their living, are mere meddlesome interferences with the rights of the individual."

The Court did make an exception, but only for women, in its 1908 *Mueller* decision. The justices argued that because of women's physical weaknesses and the importance of their primary role as mothers, governmental restrictions on hours or weight lifting were permissible. American women's reform groups at first hailed this decision, the first time the Court had accepted any restrictions on the principle of freedom of contract. But many feminists soon recognized that the ensuing "protective" legislation meant that fewer women were hired, they were paid less, and they were less likely to be promoted into management positions (Baer 1978).

The burden of adverse judicial rulings also affected labor organizing strategies. In fact, after the Civil War Republicans used the courts to en-

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sure that rulings favorable to business interests could not be countermanded by transient election results or legislative majorities sympathetic to labor (Gillman 2002). The AFL often despaired of making gains through elections or legislation in individual states, because the courts so quickly overturned them. The AFL instead tried to use strikes or negotiations with specific employers, rather than a concerted national effort to support social insurance or regulations favorable to labor (Skocpol 1992, 227).

It was not until the New Deal that efforts to extend workplace protections to men and child laborers, as well as women, received Supreme Court approval, but only after President Franklin Roosevelt threatened to "pack" the Court with additional appointees more sympathetic to his views. Roosevelt's New Deal included a number of laws designed to encourage labor unions and raise wages: Social Security, the Wagner Act, and the Fair Labor Standards Act. And these indeed passed constitutional muster by the Supreme Court after the famous "switch in time that saved nine." But as we shall see, significant aspects of the New Deal were seriously undercut by the 1947 Taft-Hartley Act, which returned crucial aspects of labor regulation to the states.

Until quite recently, U.S. courts have consistently upheld the principle of "employment at will," which gives employers broad discretion to hire and fire for any reason (Stieber 1984). Unless workers are covered by collective-bargaining contracts that mandate arbitration or grievance procedures, they may be fired for any economic or noneconomic reasons. Since the 1960s, the doctrine of "wrongful discharge" has evolved to recognize that employees' interests, dignity, and economic security merited some protection in a society increasingly dependent on wage earnings (Ballam 2000). Courts in many states have upheld public policy exemptions, so that workers cannot be dismissed for whistle blowing, jury or National Guard service, filing a workers' compensation claim, or refusing to perform an unlawful act. But as Stieber (1984, 35) notes, courts in most states "interpret the public policy exception so narrowly as to give it only very limited application."

As a result of the employment-at-will doctrine, employment protection is far weaker in the United States than in other industrialized nations. By contrast, most European countries have laws prohibiting unjust discharge (OECD 1999). However, as Wohlers and Weinert (1988, 216) state, "In the EC [European Community] countries, the high direct and indirect costs associated with dismissals make employers less willing to recruit." American employers thus have much greater latitude in personnel matters than their European counterparts enjoy. Recent American laws prohibiting racial or sex discrimination or sexual harassment, mandating family leave, or

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requiring accommodations for persons with disabilities have constrained these freedoms to some degree. But these laws are not always enforced, and because the burden of proof (and the cost of litigation) usually falls on the employee, most people who are fired do not pursue legal remedies.

One function of labor unions has been to shield workers from unjust dismissals, but many fewer workers today have access to the protection of contract bargaining agreements or union grievance procedures. And the AFL-CIO claims that workers are routinely fired because of their efforts to organize a union. This is illegal under regulations of the National Labor Relations Board, but few employers have been subject to enforcement efforts (Bronfenbrenner 2003). Business and conservatives, however, would argue that elaborate grievance procedures, as provided by many civil service laws and by contracts with public employee and teachers' unions, make it almost impossible to fire workers even for gross incompetence, and thus greatly reduce productivity in those sectors (Maranto 1999).

Demographic Trends

The United States has higher birthrates than most European countries, especially among the Hispanic population. Thus there is a ready pool of workers competing for jobs, which tends to depress wages. Because women have entered the labor force in sizable numbers since the 1950s, the United States also has a higher labor force participation rate for women than do most European countries, although this varies considerably by state. However, the "gender gap" in wages in the United States is considerably larger than that in most European countries (Stetson 1997). Many fewer women qualify for unemployment benefits, health care coverage, and pensions, in part because more of them work part time. And unlike in Europe, family leave in the United States is unpaid and limited to firms with more than fifty employees. Thus for employers, hiring more women can be a way to cut labor costs. But stagnant wages and unemployment for men have also pushed more American women into the labor force to support their families.

Wohlers and Weinert (1988) note the success of the United States in integrating sizable numbers of new workers (women, young people, immigrants) into the labor force. And Wilensky (2002) credits much of the growth in the American labor force to such demographic factors; he cites evidence that a growing labor supply helps create its own demand for jobs providing services and housing. However, a major economic consequence of this large pool of potential workers is downward pressure on wages. And exactly for this reason, most American labor unions have historically been hostile to

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organizing women or minorities. Threats by employers to evict illegal immigrants have proven to be an effective means of discouraging union organizing efforts. Groups opposed to a liberal immigration policy argue that immigrants will take jobs and wages away from native-born Americans (FAIR 2000), although economists dispute these effects (Simon 1999).

U.S. Census data indicate that 85 percent of new entrants into the twenty-first-century labor force will be female and/or minority (Judy and D'Amico 1997, 113). By the late 1990s, most labor leaders in the United States were aware of these trends, and they had recognized that if unions were to survive, they must do better at organizing women and immigrants (Sweeney 1996). Efforts have been made to do so; the AFL-CIO has greatly increased its expenditures on organization drives and is targeting establishments that employ large numbers of immigrants (Greenhouse 2003). More women and minorities are emerging as officers or board members of unions. But national union leaders still encounter resistance to these organizing efforts from male members and union locals, as well as from employers determined to keep unions out. Lengthy and detailed union requirements for apprentices and journeymen also limit competition from young workers. Unions have adamantly opposed a "subminimum wage" for young and inexperienced workers because they fear older workers would thereby be displaced. And because many women and minorities work for small businesses, retail establishments, and in service industries, organizing them will not be easy.

The Welfare State and the "Social Wage"

Wohlers and Weinert (1988) stressed the importance of "wage flexibility" as a major factor encouraging high employment growth in the United States. Their analysis of employment trends in the United States, Europe, and Japan between 1973 and 1983 found that the degree of government regulation was significantly less in the United States, while interfirm or interregional labor mobility was higher. American businesses were also more mobile, and the climate for entrepreneurship was more favorable in the United States. The deregulation of industries such as trucking and aviation has increased competition in those sectors and boosted employment. In short, the United States was more "efficient" and more willing to "accept market forces" rather than trying to adjust them in favor of labor.

Wohlers and Weinert also found that the wider wage range in the United States "took better account of employment needs" by permitting greater differentials between manufacturing and service employment, and by

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tolerating much greater disparity in wages than was the case in Europe. Their analysis discounted differences in productivity and industrial structure as reasons for the much higher employment growth in the United States during this period. In their view, the acceleration of income inequality in the United States since 1980 may have contributed to employment growth.[12]

High labor costs (especially the social wage) and low rates of job creation, as well as high unemployment, have become major political issues in Europe as well as in the United States, especially during recessions (OECD 1995, 1999). The higher "social wage" in Europe reflects a much stronger labor movement, and labor interests are represented in parties and in government. These factors, as well as the influence of the Roman Catholic "social gospel" over Social Democratic parties in Southern Europe, formed the base of political support for the emerging welfare state. But many welfare state provisions were also rooted in the labor shortages that followed the casualties of World Wars I and II and the decline in birthrates during the Depression. Several countries adopted pronatalist policies (child care, health care, family allowances) to encourage women not only to have more children but also to remain in the labor force; these policies also add to the costs of the welfare state. The importation of "guest workers" from Eastern Europe, Turkey, and North Africa was also mandated by labor shortages (although many of these workers are not eligible for citizenship or for full welfare state benefits).

Lack of Coordinating Institutions

Wilensky's (2002) comparative analysis of nineteen rich democracies found that those with the best overall economic record (low unemployment, low inflation, high rates of economic growth) tended to be the "corporatist" states of Western Europe. In these countries, labor is a recognized partner in negotiations about policies affecting taxes, trade policy, and welfare state benefits. Rather than the ongoing business-versus-labor wrangling characteristic of the United States, labor has a "seat at the table" and the interests of workers are routinely considered. In parliamentary and multiparty systems, labor parties are also frequently part of governing coalitions.

Weiss and Hudson (1995) contrast examples of "successful" economic development in Europe and East Asia with what they term "the decline of Anglo-American capitalism." Their basic argument is that successful states such as the former West Germany and South Korea develop institutions for coordinating with the private sector to counter unbridled market forces

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and make long-term investment decisions (e.g., the shift from import substitution to exports, and from basic manufacturing to high technology). But in the liberal-capitalism countries of the United Kingdom and the United States, long-term investment decisions are driven by superpower status, defense priorities, and special interest pressures, rather than by a comprehensive strategy for industrial development. Savings, investment, and worker training have thus suffered in comparison with countries that have developed more effective methods for coordinating markets.

Other research has shown that more centralized structures for wage bargaining, through peak business and labor associations or a Labor Party, have also produced greater benefits for workers. Thus, "the countries least susceptible to decline have considerable institutional power over the labor market through coordinated and encompassing bargaining, centralized wage setting, and other corporatist arrangements" (Levi 2003, 48). Such countries enjoy wage moderation and low unemployment accompanied by economic growth.

In the United States, by contrast, collective bargaining is often conducted plant by plant rather than industry-wide, with a few exceptions such as the Teamsters Union and longshoremen on the East and West Coasts. Most American labor unions have a "federal" structure in which state or local councils have considerable power and independence (Levi 2003, 50). But policies set by labor's national leadership require cooperation and financial contributions by union locals, and these may not always be forthcoming. Thus few union locals responded to AFL-CIO president John Sweeney's call for greater spending on union organizing efforts (Lerner 2003).

THE IMPACT OF COMPETITIVE FEDERALISM ON LABOR COSTS

All the above factors have been analyzed extensively in previous research, and they clearly help explain the differences in labor costs and employment trends between the United States and Europe. However, none of these explanations explicitly consider federalism or the realities of interstate competition. But I argue in this book that the existence of the American states exacerbates the impact of each of these six factors on labor costs.

First of all, the American states actively compete with each other in the global marketplace, thus augmenting the national impact of globalization. The states have entered bidding wars to entice foreign investment, especially that of large automobile manufacturing plants, and they have offered major subsidies to foreign firms such as Toyota (which went to Kentucky),

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Mercedes-Benz (to Alabama), and Volkswagen (to Pennsylvania) (Yanarella and Green 1990).

Second, the weakness of American labor is exacerbated by interstate competition for jobs and business investment, and by the role of state laws (especially right-to-work laws) affecting unions. Companies advising businesses on location decisions (e.g., Fantus, Grant-Thornton) routinely compare states in terms of their labor policies, taxation, and regulations.

Third, the William Rehnquist Supreme Court granted increasing discretion to state courts in many policy areas. State courts, especially in more conservative states, have tended to uphold restrictions on labor organizing efforts and to strike down most exceptions to the doctrine of "employment at will." Walsh and Schwarz (1996) report that twenty-six states have taken a very narrow view of public policy exceptions, and seven states (mostly in the South) recognize no exceptions at all. In those states, a person can lose his or her job for serving on a jury or with the National Guard in Iraq.

Fourth, demographic trends also vary among the states. In response to trends in population or economic growth, states have adopted laws to try to exclude or entice immigration, retain young people, or attract retirees. Americans are far more mobile than Europeans, and they do not face language barriers if they relocate (Long 1991). The rapid pace of internal and foreign migration has had profound political and social consequences for the United States and has shifted political and economic power from the Northeast and Midwest to the Sunbelt (Gimpel 1999). In California and Arizona, ballot propositions have attempted to deny welfare and other benefits to illegal immigrants, although state courts have struck down many of the more onerous provisions supported by the voters. California governor Pete Wilson was reelected in 1994 in part because his campaign successfully blamed high unemployment in California on illegal immigrants (Hansen 1999a). By contrast, many employers (especially in agribusiness) depend on a ready supply of low-paid migrant workers, and they have used their influence in Congress to make sure such workers can continue to enter the United States (Gimpel and Edwards 1999).

Fifth, the American welfare state is far more limited than its European counterparts, at least in part because eligibility and benefit levels for many social policies are set by the states. As Peterson (1995) has argued, the American federal system discourages high or progressive taxes and spending on social programs because businesses and the wealthy can threaten to move to lower-cost states. States are similarly concerned that their unemployment or workers' compensation benefits may be too high relative to levels in neighboring states. State legislatures regularly compare welfare benefits with those of their neighbors because they fear becoming "welfare

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magnets" and attracting undesirables (immigrants, welfare mothers). Despite empirical evidence that benefit differentials do not play much of a role in relocation decisions (Schram and Krueger 1995; Peterson and Rom 1990), the public, the media, and state legislators often believe otherwise.

Sixth and finally, the American federal system itself is a prime example of a "lack of coordinating institutions." Recent Supreme Court decisions—and trends toward policy devolution in areas such as health care, education, and welfare—have given states even greater discretion over policy. State and local governments have made at least some attempts to share expertise and develop better policies on regional issues. Examples include the Great Lakes Regional Commission, the Appalachian Regional Commission, the Port Authority of New York and New Jersey, the Northeast-Midwest Institute, the Southern Growth Policies Board, the National Governors' Association, the National Conference of State Legislatures, and organizations of professionals in various state government departments. But the logic of interstate (or intraregional) competition consistently overwhelms efforts by such entities. And without federal funding, coordinating institutions such as the Advisory Commission on Intergovernmental Relations have folded. By contrast, as Thomas (2000) has shown, members of the European Union (and to a lesser degree Canada) have been far more successful in restricting zero-sum competition for business and investment among states or provinces, and they have developed effective enforcement mechanisms.

I would argue, therefore, that interstate competition is a major factor keeping American labor costs low. Further evidence to support this reasoning will be presented in subsequent chapters. But to establish the importance of a state role in restricting labor costs, it must be shown that state policies have an effect independent of the federal government's policies (Hendrick and Garand 1991). Brace (1993) has demonstrated that not only are state trends in personal income independent of national economic trends, but they have become increasingly so in recent years. Accordingly, I will consider trends in federal labor costs based on minimum-wage laws, payroll taxes, and the impact of different presidential administrations on labor regulation. As I will show, these factors have less impact on state economies than do state labor costs. However, federal defense spending does contribute to state economic growth.

PLAN OF THE BOOK

The argument proceeds as follows. In chapter 2, I review the historic role of the American states in fostering economic development and regulating the cost of labor. Competition among states for jobs, people, and business

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investment has played a major role in state efforts to boost their economies, although some federal initiatives (the New Deal, the War on Poverty) have attempted to limit the most egregious effects of such competition. I next describe in more detail how the American states continue to influence the relative cost of labor. The states have considerable latitude in the regulation of labor relations and (unlike more centralized European countries) share with the federal government the costs and administration of worker benefits. I develop a measure of state labor costs, for the period 1970–2000, based on five elements: labor union density, right-to-work laws, unemployment benefits, workers' compensation, and manufacturing wages. Trends in this index since 1970 show a considerable overall decline, although with some variation across the individual components. Further, trends in state labor costs will be shown to be independent of national government policies, such as Social Security taxes, minimum-wage laws, defense spending, and the impact of different presidential administrations on labor policies.

Despite the overall decline, some states have reduced labor costs far more than others. However, I find little evidence for policy convergence as a consequence of globalization. In chapter 3, I consider several explanations for state differences in labor cost trends. Political factors (particularly voter turnout and the strength of public employee unions) prove to be far better predictors of trends in labor costs than demographic trends or economic factors such as the size of the manufacturing sector and openness to the international economy. I also consider how reductions in state labor costs have been packaged and marketed to the public and the media, primarily by the logic of interstate competition and a rhetorical emphasis on "jobs" as a desirable policy outcome.

In chapter 4, I analyze several economic consequences of trends in state labor costs. Neoliberal economic theory would predict higher rates of job creation and lower unemployment in states with lower labor costs. Though I do find some evidence for those effects, they must be compared with other results of declining labor costs: slower growth in personal income, productivity, and gross state product. Nor do declining labor costs appear to provide much advantage in the international economy; foreign investment is marginally higher in higher-cost states, whereas export growth is strongest in states with high levels of defense spending and higher labor costs. Unemployment is actually lower, and labor force growth stronger, in states that combine high labor costs and high levels of exports or foreign direct investment. Further, my measure of state labor costs appears to have a greater impact on state economies than do trends in federal policies affecting the cost of labor.

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Chapter 5 considers some possible social and political consequences of trends in state labor costs. Despite some modest gains in employment, states experiencing declining labor costs also experience declining voter turnout, higher crime and suicide rates, family instability, and slower declines in poverty rates. And employment gains fail to counter any of these adverse effects, primarily because the new jobs created are generally low paid. These results point to the difficult choices facing state governments: to create a few more low-wage jobs or to provide a better quality of life for all their citizens.

In the concluding chapter 6, I summarize the evidence that the American federal system accounts both for the weakness of American labor and for differences in labor costs between the United States and other industrial democracies. I discuss several strategies that have been attempted to reverse the downward trend in labor costs: better union organizing efforts, minimum-wage and living-wage laws, greater investment in education and worker training. I also consider the possibility that soaring medical costs will lead both business and workers to embrace a greater public role in health coverage. All these policies face strong political opposition, especially given the logic of interstate competition. But by highlighting the state role in declining labor costs, and the adverse social consequences thereof, I hope this book contributes to the ongoing debate over the impact of globalization and strategies to minimize its adverse effects on American workers.

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