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What Workers Say: Employee Voice in the Anglo-American Workplace

Richard B. Freeman
Harvard University

Peter Boxall
University of Auckland

Peter Haynes
University of Auckland

Abstract

[Excerpt] This book is about employee voice in the workplaces of the highly developed Anglo-American economies: the United States, Canada, the United Kingdom, Ireland, Australia, and New Zealand. These are among the most economically successful countries in the world. Despite being located in three different geographic areas, the Anglo-American countries have a common language and legal tradition, have close economic and political ties, and are linked by flows of people, goods, and capital. Many of the same firms operate in each country. The unions in each pay more attention to their counterparts within the group than to unions in other countries. The Anglo-American brand of capitalism – market oriented and open to competition, with modest welfare sates and income transfer systems – differentiates the countries from countries in the “social dialogue” model of the European Union (although the United Kingdom and Ireland are part of the Union) and from the highly unionized labor system in Scandinavia.

Keywords

workers, United States, Canada, United Kingdom, Ireland, Australia, New Zealand

What Workers Say

Employee Voice in the Anglo-American Workplace

EDITED BY

Richard B. Freeman, Peter Boxall, and Peter Haynes

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What Workers Say

Introduction

The Anglo-American Economies and Employee Voice

RICHARD B. FREEMAN, PETER BOXALL, AND PETER HAYNES

This book is about employee voice in the workplaces of the highly developed Anglo-American economies: the United States, Canada, the United Kingdom, Ireland, Australia, and New Zealand. These are among the most economically successful countries in the world. Despite being located in three different geographic areas, the Anglo-American countries have a common language and legal tradition, have close economic and political ties, and are linked by flows of people, goods, and capital. Many of the same firms operate in each country. The unions in each pay more attention to their counterparts within the group than to unions in other countries. The Anglo-American brand of capitalism—market oriented and open to competition, with modest welfare states and income transfer systems—differentiates the countries from countries in the "social dialogue" model of the European Union (although the United Kingdom and Ireland are part of the Union) and from the highly unionized labor system of Scandinavia.

Similarities among the Anglo-American countries notwithstanding, analysts rarely consider them as representatives of a broad class of capitalist economies. Many studies compare the other Anglo-American countries to the United States, which directs attention to differences among the countries rather than to commonalities. In this book we argue that the six countries are sufficiently alike to make them a distinct capitalist model while also evincing sufficient variety to enable us to derive useful lessons from comparisons among them. Were Darwin to return as a social scientist and journey to the Anglo-American countries to observe their labor relations, he would note the familial similarities and common descent from the United Kingdom. He would ponder the different adaptations to the economic and social environment, just as he noted the varieties among plants and animals in various parts of the world during his journey aboard the *Beagle*. At the turn of the twenty-first century, he would also note that the traditional institution for worker voice and power, the trade union, is facing substantial pressures in all of the Anglo-American countries. In the United States and Australia, the union movements are in deep crisis. In the other four countries, unions are also struggling to respond to challenges from employers, globalization, and neoliberal economic policies.

What Workers Say: Goals, Terms, and Methodology

Although trade unions are invariably a central concern in any study of employee voice, this book goes further in considering nonunion as well as union voice in the six advanced Anglo-American countries. Our aim is to identify the voice workers have in those countries and compare it with the voice they want. Workers are the main "consumers" of the institutions that govern workplaces, which makes it incumbent on government, unions, and business to pay close attention to the views of workers in constructing or reforming those institutions. We designed *What Workers Say* to assess employee attitudes with minimal prompting from researchers. As much as survey methodology permits, we have let workers in the Anglo-American world speak for themselves about their employment institutions and experiences—and about the reforms that might improve employee representation and participation.

To examine employee voice in the six countries in a way that facilitates comparison, we organized a team of country experts in labor relations and labor markets. We coordinated their work through the Internet and then through a workshop at the University of Auckland in September 2004. Our team of researchers adopted a common research methodology: to examine employee views from a linked set of surveys based broadly on the 1994–95 *Worker Representation and Participation Survey* in the United States (Freeman and Rogers 1999) and the 2001 *British Worker Representation and Participation Survey* (Diamond and Freeman 2002).[1] Although the surveys drew their inspiration from this common base, researchers modified questions to suit their country context, to follow up on their particular interests, and, in some cases, to draw on other representative surveys. The original U.S. survey sampled 2,408 adult

[1] In terms of specific methods, all but the United Kingdom survey gathered data by telephone interview using standard computer-assisted telephone interviewing (CATI) techniques.

workers in private-sector firms with more than twenty-five employees. The other surveys included all groups of workers. The British study involved face-to-face interviews with some thirteen hundred randomly chosen workers. The Canadian survey used the 1996 *Canada-U.S. Labor Attitudes Survey* by Lipset and Meltz (1997, 2004), which drew many items from Freeman and Rogers (1999). This survey sampled 1,495 workers. The Australian and New Zealand surveys randomly drew 1,000 workers from residential telephone directories. The Irish survey randomly sampled 1,420 workers.

In addition to these country studies, we recruited experts to consider the implications for the institutional parties across the whole set. Thus, the book incorporates analyses of the implications for unions, employers, and government.

While the surveys ask questions in different ways to fit the particular institutional and demographic context of the country under study, they all seek to compare the voice workers have in their workplaces with the voice they want to have. But what do we mean by "voice"? We understand employee voice as incorporating representative voice and various forms of participation developed directly between management and workers. Trade unionism has been the historical vehicle for formal representation of worker interests, but, outside the United States, workers can legitimately have formal voice regarding their working conditions through structures such as joint consultative committees and works councils. The role of unions in nonunion committees and councils varies. In some cases, union representatives are deeply involved in these organizations, while, in other cases, the committees or councils operate in workplaces that are not unionized. Representation thus traverses both union and nonunion institutions.

Participation covers an array of activities in which managers engage workers in work-related decisions, either on the job or off it, and through which workers can exercise some kind of influence in how their work is organized or their workplaces are run. These vary across the Anglo-American world from the "town hall" meetings seen in the United States to the team briefing processes used in the United Kingdom to the employee involvement groups, problem-solving teams, and more autonomous jobs now found, to some extent, not only in the Anglo-American countries but throughout the world.

Although it is common to draw a distinction between representation of employee interests and employee participation in management, we note that there is considerable overlap between representation and participation and the institutions designed to foster them. Managers, for example, often design consultative structures with participation in mind—to inform and to get worker support for management proposals but to stop well short of negotiation of interests. On the other hand, structures starting life as top-down channels may "morph" into forums in which management listens to, and then acts on, employee concerns about their interests. Similarly, unions that represent workers in collective bargaining may also facilitate employee involvement in production decisions. Rather than assuming we know what is going on in the different forms, we ask workers to tell us what is happening and whether they find it effective. Collectively, the *What Workers Say* surveys enable us to address four core sets of questions about the representation and participation of Anglo-American workers at their workplaces:

1. *Union representation gaps:* To what extent, if at all, do workers want greater union representation than they have at their workplaces? Are some groups of workers more frustrated in their inability to gain union representation than others? Are some workplaces or sectors more prone to frustrated union demand?

2. *Worker attitudes toward representation generally:* In the broadest possible terms, how do workers feel about the different ways their interests are represented in their firm? What can unions, in particular, learn from worker desires for representation and assessment of the effectiveness of institutions to meet those desires?

3. *Worker attitudes toward participation and styles of voice:* How do workers feel about employer-driven forms of influence? Are these forms more effective when complementary with unionism? How well do they work independent of unionism? What styles of engagement with employers do workers seek?

4. *Employee voice and public policy reform:* Are there "institutional rigidities" that render public policy on employee voice ineffective in some Anglo-American countries? What institutional models are more successful in giving workers the voice they seek at workplaces?

The first of these questions, focused on the union representation gap, carries forward a key concern in the work of Freeman and Rogers (1999). We know that a large number of workers in the United States want union representation but cannot obtain it. How large is this unfilled demand for unionism in other Anglo-American countries, and what can we say about where it occurs?

The second question is a more general one, examining how workers feel about representation more broadly, including their assessment of the relative costs and benefits of unionism. Better understanding of contemporary worker attitudes toward representative voice is important for all parties but is critical for unions if they wish to modernize their operations to provide more workers what they want from a workplace organization.

The third question is the natural companion to the second one. Throughout the Anglo-American world, the decline of unions has occurred in parallel with the rise of management-driven forms of participation, often concentrated on individual rather than collective voice. To what extent do management-led voice systems fill a role that workers consider valuable? How are management-led systems connected to union voice? Given a choice, what style of engagement do workers want with their employers?

Finally, we assess implications for public policy. Which countries have developed institutions that are worth emulating and in what ways? Which prevent workers from obtaining the voice that they seek? Our overriding goal here is to provide the information so that decision makers in these societies can find ways to improve their voice regimes for the benefit of workers, employers, unions, and society as a whole.

Although the personal predilections of researchers invariably influence the tone and direction of their work, we and the chapter authors have tried to minimize a priori views and theoretical preconceptions to focus on the empirics of the representative surveys. We want to report what workers say, not what we as researchers think they ought to say. In this introduction, we set the stage for the rest of the book by focusing on the Anglo-American economies as a distinct group in comparative labor relations. We examine the commonalities among the six countries that distinguish them from other advanced countries and highlight some of the key differences within the group. We explain how the book is organized and outline what lies ahead.

Classifying Economies: Common Descent and Common Characteristics

Do the economies and labor systems of the United States, Canada, the United Kingdom, Ireland, Australia, and New Zealand constitute a single family or type of capitalist labor institutions that merit analysis as an economic model comparable to the "Nordic" model of the Scandinavian countries or the EU "social dialogue" model that represents the advanced continental EU countries? We argue that they do, in two stages. First, we define the attributes that economies should have in common to be classified as a single group. Then we show that the Anglo-American economies have these attributes. We reach our conclusion that the Anglo-American economies are a single family on the basis of their British heritage; the similarities in the rules they use to govern labor market and other economic transactions; the similarities in the de facto operation of their economic and labor institutions; and their pattern of decline in collective bargaining compared to other advanced countries. We further show that adjacent countries—the United States/Canada, the United Kingdom/Ireland, Australia/New Zealand—have particularly close institutional arrangements, which justifies treating them as pairs in some analyses.

Economists classify economies largely on the basis of the extent to which they rely on private property and competitive markets to allocate resources and distribute income. At one end is the "invisible hand" capitalist economy, where private property predominates and almost everything operates through markets. With the collapse of Communist planned economies, where the state owns productive property and almost everything operates through government decisions, we are left at the other end of the spectrum with more institution-driven market economies, which rely extensively on social dialogue between business and labor in decision making (Freeman 2006). The "war of the models" among advanced capitalist economies is between economies where market forces determine wages and employment with little role for institutions to affect outcomes and those where institutions—unions, centralized or coordinated bargaining, government regulations—also affect the outcomes.

Most studies use observable laws or practices to assess how much a given labor market or economy relies on markets as opposed to institutions. Does the country have employment protection legislation? Do employer federations bargain with centralized union groups? Are minimum wages important? And so on. Some classifications focus on the similarity in de jure labor (and other) codes and regulations among countries (Botero et al. 2003). Others deal with observable procedures such as the centralization of collective bargaining (OECD 2004). Since de jure regulations may be weakly enforced and observable institutions may operate differently in different countries, other classifications are based on surveys that ask respondents to report on actual practices on the ground (Chor and Freeman 2005).

Biology, where classification is more important in analysis than it is in economics, initially grouped animals and plants according to their observable or phenotypic similarity. Since then biologists have used the principle of common descent to classify creatures by their family tree or evolutionary history. Cladistics, which relies extensively on statistical analysis of family trees, has morphed into molecular systematics based on genomic DNA analysis. Approaching the classification problem from a different perspective, economists have come to recognize the value of historical lineage in analyzing economies. They have begun to use the lineage of institutions as an instrument to estimate the independent effect of those institutions on outcomes (Acemoglu, Johnson, and Robinson 2001; Botero et al. 2003).

To assess whether the Anglo-American economies are sufficiently alike to form a separate family among advanced economies, we consider their lineage/common descent from Great Britain and their observable characteristics.

Historic Lineage/Common Descent

The United States, the United Kingdom, Australia, Canada, New Zealand, and Ireland are countries where English is spoken (primarily) and are democracies with a heritage of British concepts of law and contract. In the Botero et al. (2003) classification of countries by legal tradition, they fit into the "Anglo common law" category, though French Canada embodies a French legal tradition. There is one reason for these similarities. All of the countries were colonized by Great Britain. All but the United States and Ireland are members of the British Commonwealth.

The lineage similarities go further. They include similar national origins of the populations. The countries have large British-ancestry populations. The North American countries and Australia and New Zealand have large Irish-origin populations, as well. This is because they offered Irish peasants opportunity to escape a poor rural society when Ireland was a British colony. The United Kingdom and Ireland have an open border, so that the United Kingdom also has a large Irish immigrant population; and New Zealand and Australia have relatively open borders, which allow persons from one country to migrate and work in the other. Finally, there are other substantive people flows among the Anglo-American countries. The United Kingdom hosts large numbers of immigrants from the United States, Australia, Canada, and New Zealand. Persons born in Canada and Britain make up the largest proportion of advanced country immigrants to the United States. Persons born in Australia and New Zealand often work in the United Kingdom for some years, and many move to the United Kingdom permanently.

The flow of people affects the nature of unions and of business. Important union leaders in particular countries were immigrants or the children of immigrants from other Anglo-American countries. Samuel Gompers, founder of the American Federation of Labor, came to the United States from the United Kingdom. John L. Lewis, president of the United Mine Workers of America, who helped found the Congress of Industrial Organizations (CIO) in the United States, was of Welsh descent. James Larkin, the founder of the Irish Transport and General Workers' Union, was born in Liverpool. The labor links are particularly strong between adjacent countries. Some Canadian unions are part of U.S. "internationals," and Canadians have attained the presidency of some of those unions: for instance, Lynn Williams and, later, Leo Gerard headed the United Steelworkers (USW). The Irish Congress of Trade Unions has close ties with the British Trades Union Congress (TUC).

Business ownership patterns also overlap considerably. The United States is the largest investor in Canada. The United Kingdom has the largest foreign direct investment position in the United States. The 1983 Australia New Zealand

Closer Economic Relations Trade Agreement (ANZCERTA) makes it relatively easy for firms from either country to invest in the other.

The Anglo-American economies also share common characteristics in financial markets and corporate governance structures, which has important implications for labor management. Strong emphasis on property rights and shareholder value, along with deep equity markets in the Anglo-American economies, buttresses more dispersed and less committed corporate ownership than in many other advanced economies. In their survey of the ownership of large and medium companies in twenty-seven countries, La Porta, Lopez-de-Silanes, and Shleifer (1999, 512) found that "the United States shares relatively high ownership dispersion with other countries with good shareholder protection, particularly the other rich common law countries," the latter composed for the most part of other Anglo-American countries.[2] Equity markets play a greater role in determining business ownership in the Anglo-American economies than in other economies. In 1997, for example, the value of the stock market in the United States and United Kingdom accounted for 100.9 and 154.4 percent of GDP compared to no more than 31.4, 40.6, and 58.1 percent in Germany, France, and Japan, respectively (Deutsches Aktieninstitut 1998, cited in Jurgens, Naumann, and Rupp 2000).

Some analysts have argued that the shareholder-centered liberal model of corporate governance in the Anglo-American economies encourages short-term thinking among corporate managers, resulting in significant underinvestment (Porter 1992; Shleifer and Vishny 1990; Stein 1988, 1989). While surveys of managers give some support to these arguments (Poterba and Summers 1995; Segelod 2000), the performance of the U.S. economy in the 1990s through the mid-2000s has muted such criticisms. Indeed, the tone of recent analysis of the liberal model has tended to the triumphalist: "The rest of the world seems to be following the U.S. lead" (Holmstrom and Kaplan 2003, 19).[3] Whichever point of view is correct, financial and governance structures do seem to be related to labor-management practices. Comparing the United States and the United Kingdom with Japan and Germany, Gospel and Pendleton (2003) argue that the Anglo-American finance and governance system leads to greater emphasis on the interests of capital vis-à-vis labor, short-term

[2] Surveying investor protection laws in forty-nine nonsocialist countries, La Porta et al. (1998) found that the common law countries had significantly higher protections for investors than the various civil law countries. For shareholder protections there was less variation among the Anglo-American countries than across the common law group as a whole, and the mean scores for the Anglo-American countries were higher than that for the common law group as a whole. Although the common law countries scored below their Scandinavian civil law counterparts for strength of legal enforcement of investor rights, further calculation shows that the differences between the Anglo-American countries taken alone and the Scandinavian group were not significant at the .05 level for five of the six factors tested.

[3] For a more balanced analysis, see Jacoby (2000) and Jurgens, Naumann, and Rupp (2000).

time frames, and financial objectives and measures, which in turn creates less secure employment, less in-house skills training, and more market-based methods to secure worker commitment as opposed to employee voice.

Finally, in the area of economic thinking, there is a powerful, English-speaking liberal economic tradition stemming from Adam Smith and Alfred Marshall that differs in many respects from the economics tradition in continental Europe. And, while all union movements have some socialist leanings, the unions in the Anglo-American world have been more business-oriented than unions in many other advanced capitalist economies (Hyman 2001; Streeck and Hassel 2002).

In sum, common descent and lineage suggest that the six English-speaking economies in this book constitute a single model or family of economies, comparable to families in biological taxonomy. Common lineage and descent does not, however, mean that economies operate according to the same rules or that, in the context of this book, their labor markets produce similar problems of worker representation and participation, much less solutions to those problems. We consider next whether the Anglo-American economies also meet the test of comparable economic and labor market institutions and performance.

General Market Orientation

The most widely used measures of the overall operation of economies are indices of economic freedom. Since the 1980s, the Fraser Institute in Canada has produced the most extensive index of economic freedom based on metrics for "personal choice, voluntary exchange, freedom to compete, and protection of person and property" (Gwartney and Lawson 2002, 5). The Fraser index scales economies from 1 to 10, where higher scores reflect greater dependence of outcomes on markets as opposed to institutions. Since 1995, the Heritage Foundation/Wall Street Journal (Heritage/WSJ) has provided the competing Index of Economic Freedom that scores countries on a different list of variables.

The conservative orientation of the Fraser Institute and of the Heritage/WSJ affects how they define economic freedom. Both code protection of property as a positive factor in economic freedom but code protection of labor as reducing economic freedom on the grounds that it restricts the ability of businesses to make decisions. Both score government regulations and welfare state spending as lowering economic freedom, although these institutions arguably limit monopoly power and expand the economic freedom of disadvantaged groups. Issues of nomenclature and of the specific ways the foundations code variables aside, the indices provide a reasonably valid picture of the market orientation of economies.

Columns 1 and 2 of table intro.1 give the Fraser and Heritage/WSJ rankings of the Anglo-American economies, of other advanced Organisation for Eco-

TABLE INTRO.1
Advanced economies ranked by the market orientation of the overall economy, the labor market, and the government share in economic activity

	Overall economy		Labor market		Government role	
	Fraser, 2003 EFA	Heritage, 2005 EFA	Fraser, 2003 Labor*	GLS, 2005	Gov't spending as % of GDP, 2003	Social expenditure as % of GDP, 2001
United States	3	12	10	6	35.9	14.7
United Kingdom	6	7	19	13	42.8	21.8
New Zealand	3	5	38	16	39.8	18.5
Ireland	8	5	47	17	35.2	13.8
Australia	9	10	32	17	36.2	18.0
Canada	7	16	25	15	40.1	17.8
Mean (SD) AA	6 (2.5)	9.2 (4.4)	28.5 (13.3)	14 (4.2)	38.3 (3.0)	17 (3.0)
Mean (SD) others less Asian Tigers	23.1 (13)	23.5 (14.8)	66.5 (27.6)	25 (3.8)	49.0 (5.7)	24.2 (3.8)
t-statistic for difference	5.18	3.56	4.42	5.42	5.63	4.71
Switzerland	3	12	34	19	—	26.4
Netherlands	13	17	52	29	48.6	21.8
Finland	17	15	90	26	51	24.8
Iceland	13	8	12	—	46.5	19.8
Denmark	13	8	71	26	56.6	29.2
Luxembourg	9	3	33	—	—	20.8
Austria	13	19	83	25	51.6	26
Belgium	20	21	63	29	49.7	27.2
Germany	19	18	101	23	49.4	27.4
Portugal	34	37	77	—	46.8	21.1
Sweden	24	14	96	29	59	29.8
Japan	30	39	28	17	38.3	16.7
Norway	24	29	89	27	48.4	23.9
Spain	30	31	54	—	39.3	19.6
Italy	54	26	95	24	48.5	24.5
France	38	44	58	26	54.4	28.5
Greece	38	59	94	—	46.7	24.3
Asian tigers						
Hong Kong	1	1	5	—	—	—
Singapore	2	2	42	9	—	—
Taiwan	24	27	61	7	—	—
Korea	35	45	81	10	—	—

Sources: Heritage Foundation (2005) *2005 Index of Economic Freedom;* Gwartney and Lawson, with Gartzke (2005) *Economic Freedom of the World: 2005 Annual Report;* Global Labor Survey (2005); Chor and Freeman (2005); U.S. Bureau of the Census (2005) *Statistical Abstract,* table 1344 using government expenditures; OECD Social Expenditure Database: Total public social expenditure (1980–2001) by main category, as a percentage of total GDP (http://www.oecd.org/dataoecd/56/37/31613113.xls). Note that the OECD provides other estimates in *Factbook 2006* and in Adema and Ladaique (2005).

nomic Co-operation and Development (OECD) countries, and of the four 'Asian Tiger' economies (Hong Kong, Singapore, Taiwan, and South Korea), respectively. The numbers in the ranking exceed the numbers in the table because the rankings include developing economies that we do not report in the table. The summary statistics give the average unweighted scores and standard deviations for the scores for the Anglo-American economies and for the other advanced economies exclusive of the Asian Tiger economies, and the t-statistics for the differences between those means.

The Anglo-American economies rank higher in their market orientation than do the other advanced (non–Asian Tiger) economies. The standard deviations of the scores for the Anglo-American economies in the Fraser Institute rankings are extremely low. This shows that they have very similar market-oriented economic institutions. Using a t-test to measure the difference between the mean Fraser Institute rating in economic freedom for the Anglo-American economies and other advanced economies (again, exclusive of the Asian Tigers), gives a statistically significant 5.18. We treat the Asian Tiger economies, listed at the bottom of the table, separately because they vary so much in their market orientation. Singapore and Hong Kong, which have the English common law tradition, place at the top of the overall economy indices, while Taiwan and Korea, whose histories are quite different, score considerably lower on the free market scale.

The Heritage/WSJ index shows greater variability in the rankings of the Anglo-American economies and smaller differences between them and the other advanced economies. It gives a lower ranking for the United States and Canada, and higher ranks for some of the EU countries. Some of this seems due to the way the Heritage/WSJ index treats the labor market. For instance, the Heritage/WSJ index gives Sweden the same free market score on wages and prices as the United States, despite Sweden's greater dependence on institutions in wage setting.[4] Still, this index also shows that the Anglo-American economies form a distinct group closer to the free market ideal than the other advanced economies. The t-statistic for the difference in means is a statistically significant 3.56.

Disaggregating the Fraser index of economic freedom into its basic components reveals the reasons for the differences in freedom indices among the advanced countries. The Fraser index gives all advanced economies comparable high scores in several indicators of market orientation: protection of property rights, independent legal systems, sound monetary policies, free trade. The advanced countries score closer to an "invisible hand" ideal than do developing countries in all of these measures. This produces the positive correlations between economic freedom indices and levels of GDP that analysts find in studies of the economic freedom indices (Gwartney and Lawson, with Gartzke 2005; Heritage Foundation 2005). The differences among advanced economies occur in two areas: labor market institutions, which are more significant in advanced countries than in developing countries, and which play a bigger role in determining wages and working conditions in EU countries than in the Anglo-

[4] Apparently Sweden's reliance on the market to set product prices dominates Sweden's use of collective bargaining to determine wages.

American countries; and the government share of GDP, which tends to be high in countries with extensive welfare states such as the Nordic countries.

Column 3 records the rankings of economies in the Fraser Institute subindex for the market orientation of labor markets.[5] Until 2001, the Fraser index dealt only cursorily with labor institutions. In its 2001 report, however, the institute presented a more comprehensive freedom index for fifty-eight countries that included six indicators of labor institutions. By 2003, it had extended these measures to 103 countries. The rankings of countries by labor market status gives high scores to countries with little or no labor protection, such as Uganda, the United Arab Emirates, Zambia, and Haiti (the top four countries in the Fraser labor market freedom subindex for 2003), while giving low scores to countries that have well-developed legal systems of protecting workers, such as Germany and Sweden. This scoring creates some odd differences and produces a negative relation between "economic freedom" in the labor market and GDP per capita (Freeman 2004). Still, the subindex gives a sensible ranking of the advanced countries. It rates the Anglo-American economies higher on reliance on the labor market to determine labor outcomes than other advanced economies.[6]

Column 4 of table intro.1 records the rankings of countries in the market orientation of their labor market from a different source—the 2004 Global Labor Survey (GLS) (Chor and Freeman 2005). The GLS is an internet-based survey that asked selected union leaders, labor relations professors, government officials, company labor relations executives, and other experts to report on the *actual situation* of labor in their country. The sample consisted disproportionately of respondents favorable to labor institutions (Chor and Freeman 2005). This contrasts with the market orientation of the analysts who construct the economic freedom indices of the Fraser Institute and the Heritage/WSJ. The GLS index shows, however, a similar country pattern to the Fraser labor index: Anglo-American economies depend more on the labor market and less on institutions to determine labor outcomes than do the other advanced economies. Once again, the t-statistic for the difference in means is significant. That the rankings of countries by labor practices are similar in the GLS and Fraser measures indicates that the orientation of analysts did not noticeably affect their reporting of country labor practices.

Turning to the role of the government in the economy, column 5 of table intro.1 records the proportion of GDP that consists of government expenditures. It shows that government plays a smaller role in the Anglo-American economies than in others. Column 6 gives the proportion of GDP that the OECD

[5] As the Swedish-U.S. comparison in the text indicates, the Heritage/WSJ index does not delve in depth into labor market issues. Its subindex treats price and wage setting together.

[6] Because the Heritage/WSJ measure of economic freedom does not treat the labor market with the same attention, we do not report its subindex in table intro.1.

categorizes as social expenditures.[7] It shows that much of the difference in the government share of GDP takes the form of smaller welfare state interventions designed to buttress the living standards of lower-income groups in the Anglo-American countries than in others. As before, the differences in the means for these two statistical measures are significant. The Anglo-American country with the highest government and social expenditures' share of GDP is the United Kingdom, whose spending falls below all but two of the non-Anglo-American countries (Japan and Spain in column 5 and Japan and Iceland in column 6).

It seems, then, that common descent among the Anglo-American countries has manifested itself in some common economic behaviors. The Anglo-American economies are, in general, more market friendly with relatively smaller governments than other advanced capitalist economies.

Labor Market Outcomes and Institutional Patterns

Data on labor market outcomes and institutions strengthen our contention that the Anglo-American economies constitute a distinct group for analysis. With respect to outcomes, perhaps no aspect of the economic performance of the Anglo-American economies has attracted as much attention as the low unemployment rate and high employment rates that they generated in the 1990s to mid-2000s. On the basis of the better employment and unemployment record of the Anglo-American economies (figure intro.1), many policy-makers and analysts in the EU have come to believe that Anglo-American labor institutions are superior to EU labor institutions in creating full employment. Whether this claim is empirically justifiable or not (Freeman 2005), there is no gainsaying that the labor institutions as well as labor market outcomes differ greatly between the United States, the United Kingdom, Australia, Ireland, Canada, and New Zealand, and most other advanced countries.

The first and, arguably, most important institutional difference between the Anglo-American and other advanced economies is found in the extent of unionization and use of collective bargaining to determine wages. In 2000, union density in the Anglo-American economies averaged 26 percent while density in the other countries averaged 38 percent.[8] But the bigger difference is in the percentage of workers covered by collective bargaining. In many EU countries, mandatory extension of collective bargaining contracts brings many workers and firms who were not part of the agreement under its terms. In the United States, the United Kingdom, and Canada, this was never the case. In New Zealand and Australia, wages and conditions were historically set by a cen-

[7] The OECD defines this to measure "the extent to which governments assume responsibility for supporting the standard of living of disadvantaged or vulnerable groups."

[8] Based on data from the OECD (2004, table 3.3).

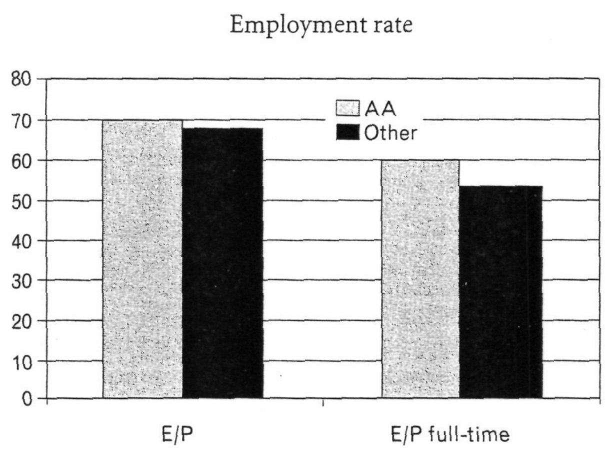

Figure intro.1: Unemployment and employment/population rates in the Anglo-American (AA) economies and other advanced economies (other)

Source: Tabulated from OECD (2005).

tralized award system, in which courts effectively extended agreements to the entire economy. But New Zealand ended its centralized system in 1991 and Australia began moving away from its award system in the mid-1990s. Collective bargaining coverage fell hugely in New Zealand and began to decline in Australia in the 2000s, following a significant decentralization of bargaining to the plant and company level. The exception to this pattern is Ireland, which in 1987 developed a Social Pact for wage-setting to help the country escape from a major recession. Consistent with the Anglo-American traditions of decen-

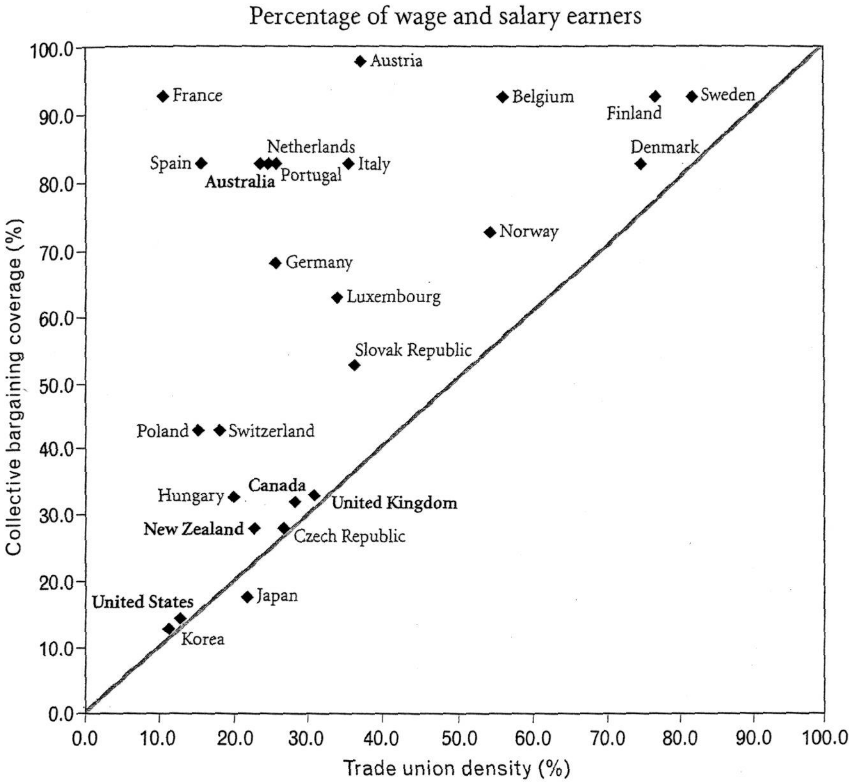

Figure intro.2: Percentage of workers unionized and percentage covered by collective bargaining, 2000

Source: OECD Employment Outlook 2004. Copyright OECD, 2004. Data for Ireland are not available.

tralized decision-making, however, the unions balloted members over potential settlements as part of their involvement in the Pact.[9]

Figure intro.2 shows how the Anglo-American economies compare to other advanced countries in the rate of unionization and collective bargaining coverage in 2000. The 45 degree line represents the situation where the rate of collective bargaining equals the rate of unionization and thus where there is no

[9] In their classification of countries according to "patterns of bargaining coordination," Ebbinghaus and Kittel (2005) emphasize the diversity within the Anglo-American camp over the period 1971–98 because of the New Zealand, Australian, and Irish cases. We would argue that since 1998 the Anglo-American countries have become significantly less "mixed" in terms of bargaining coordination patterns: there is no evidence that the regulatory changes in New Zealand in 2000 have moved New Zealand away from the "flexible uncoordinated bargaining" pattern that Ebbinghaus and Kittel ascribe to the United States, Canada and the United Kingdom; and Australia has moved firmly into this camp (chapter 5 in this book).

extension of contracts. Points above the line reflect some form of extension. Four of the six Anglo-American countries lie along line. Ireland lies above it.[10] In 2000, Australia was considerably above the line, but Australian collective bargaining coverage has fallen since then toward the line.

Collective bargaining is the critical institution in wage setting, leading to many categorizations of wage-setting systems in advanced countries in terms of the extent and nature of such bargaining (OECD 1997). The most recent analysis by the OECD (OECD 2004, table 3.5) used two related categorizations—one which divided collective bargaining arrangements into five groups based on centralization of bargaining and one which divided the arrangements to allow for coordinated bargaining. The centralization grouping ranged from economies where wages were predominantly determined at the company and plant level (scored as 1) to economies where central-level agreements were of over-riding importance (scored as 5). This categorization placed four of the Anglo-American countries in the most market determined group, put Australia into the second most market determined wage group and put Ireland into the second most centralized wage-setting group (OECD 2004, table 3.5). Taken as a whole, the Anglo-American economies averaged 1.8 on the wage-setting institution scale while the other advanced OECD countries averaged 2.8.

When countries determine pay by collective bargaining or other institutions, they almost invariably compress the distribution of earnings. Given the reliance of the Anglo-American countries on markets for setting wages, we expect that these countries would have greater dispersion of wages than other advanced countries. The horizontal axis of figure intro.3 records one widely used indicator of pay dispersion, the ratio of the pay of persons in the ninetieth percentile of wages and salaries relative to the pay of persons in the tenth percentile. The United States has the highest dispersion; Norway has the lowest. The mean for the Anglo-American countries is 3.65, statistically significantly higher than the 2.85 mean for the other countries.

Another institutional difference between Anglo-American economies and most other advanced country economies relates to employment protection given to workers on the job. In the Anglo-American economies, employers "own" jobs and can lay off workers with little legal restriction. In other advanced countries, workers tend to have greater employment protection. This often takes the form of requiring that firms negotiate with a works council on a "social plan" for retraining before they lay off workers; and of paying legally mandated severance pay when the firm chooses to lay them off. Such regulations have the potential for increasing employment by making it more expensive to lay off workers. But they also have the potential to decrease employment

[10] Although comparable data are not available for Ireland, expert opinion places Ireland above the line (see Ochel [2001] and Visser [2000] for the mid-1990s and European Commission [2003] for 2000).

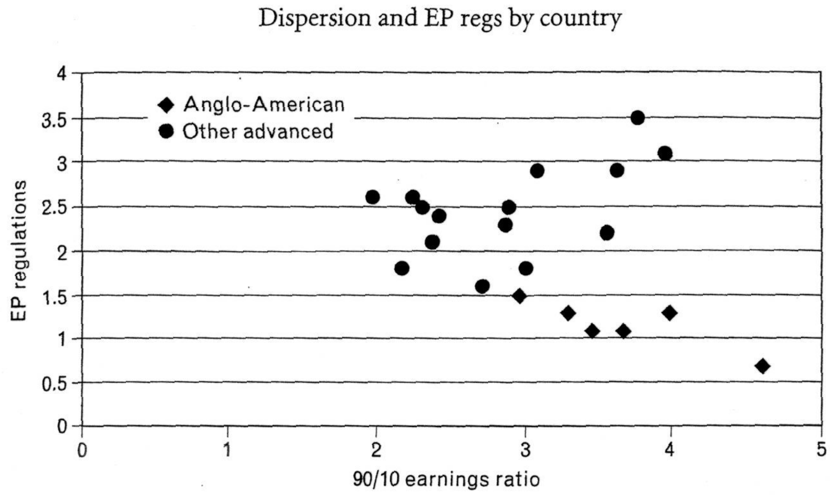

Figure intro.3: The Anglo-American economies and other advanced economies, dispersion of pay and employment policy regulations)

Source: EP regulations: OECD (2004), table 2.A2.4, version 2; wage dispersion: OECD (2004), table 3.2. Note that data are from 1995 through 1999 with figures from Austria, Belgium, Denmark, Portugal for 1990—1994, and data for Spain and Greece from Martins and Pereira (2004), table 1.

by making hiring more expensive, since firms recognize that if they have to lay off workers, it will cost more. In theory, the regulations or collective bargaining could set just the right severance pay to shift income from employers to workers without having an effect on employment. Empirical studies suggest that the regulations have little effect on the overall rate of unemployment but shift unemployment from older workers to younger job seekers (OECD 2004).

The vertical axis of figure intro.3 measures employment protection legislation (EPL), as indexed by the OECD. There is no overlap between Anglo-American economies and the other advanced economies. The Anglo-American economy with the strongest EPL regulations, Australia, had markedly weaker EPL regulations than the countries with the weakest protection outside of the Anglo-American group, Denmark and Switzerland. And the labor market legislation adopted by the Australian Government in 2006 will increase the space between the Anglo-American countries and others since it will considerably reduce Australian workers' employment protections. By displaying the dispersion of earnings and the difference in employment protection legislation together, figure intro.3 shows starkly the difference between the operation of the labor markets in Anglo-American economies and those in other advanced economies.

Labor laws and regulations help determine the way in which a country divides the responsibility for labor market outcomes between market forces, largely operating through the behavior of firms, and institutions, largely operating through unions. To measure the strength of regulations, Botero et al. (2003) coded the laws regulating employment contracts, industrial relations, and social security regulations in 85 countries. Higher values indicate greater labor regulations. The Anglo-American countries have lower scores than the other advanced (non-Asian Tiger) countries in all three areas but the magnitude of the differences between the Anglo-American countries and other advanced countries varies greatly. Using a t-statistic to measure the difference between the means, the greatest difference is for industrial relations laws, followed by employment laws, with no statistically significant difference for social security regulations.

The laws governing labor are likely to influence how the labor markets function and workplace practices, but they are unlikely to be determinative. De jure rulings do not inevitably produce de facto practices on the ground. One way to see how country labor systems differ in practice is to ask business and labor practitioners about the ways in which the labor markets in their country operate.

For the business view, we rely on the global competitiveness reports of the World Economic Forum (WEF). The WEF asks executives annually how their country performs in diverse areas, including some aspects of labor market performance (World Economic Forum 2003). Table intro.2 gives the average ranking of the Anglo-American countries and other (non-Asian Tiger) advanced countries in four dimensions of labor market decision-making for 2003.

Column 1 shows that executives in the Anglo-American countries reported that their country relied less on wage-setting institutions than the executives in other countries, though the mean difference is not huge. The differences are not huge because Ireland had a highly centralized wage-setting system while Australian wage setting was moderately centralized in 2002–03. Column 2 gives the average ranking of countries by the extent to which management can relate pay to productivity. On this dimension, Ireland and Australia are closer to the other Anglo-American countries, producing a higher t-statistic for the difference between the Anglo-American economies and the other advanced economies. Column 3 turns to hiring and firing practices—the employment protection laws described earlier. Executives in the Anglo-American countries give their country a more market-oriented ranking on this dimension because, as we have already seen, those countries have weaker protections for workers. The United States, which has the strongest "employment at will" rules among the Anglo-American economies, and where firms are free to replace workers who go on strike, is the Anglo-American country with the highest market score (World Economic Forum 2003, table 10.18).